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INTRODUCTION

REPORT OVERVIEW

The *Audit Act* requires the Auditor General to report annually to the Legislative Assembly. My 2012 Annual Report provides observations, recommendations, and information pertaining to the audits and examinations of government operations conducted by the Office during the year. The purpose of this report is to assist the Legislative Assembly in carrying out its responsibility to hold government accountable for the management of public resources.

My 2012 Annual Report deals mainly with matters pertaining to the 2010-11 fiscal year, however, many of the issues identified remain current and are still being addressed by government.

A large portion of the audit work is determined by statutory requirements which name the Auditor General as auditor. These requirements include the annual financial statement audit of the Public Accounts of the Province and certain other government entities. We also perform financial statement audits on government entities through non-statutory appointments. The remainder of our resources are devoted to special audits and examinations. The Office strives to provide reasonable audit coverage on a cyclical basis.

This report includes information and discussion on the **Province's Finances**. The section on **Special Audits and Examinations** includes the results of various examinations conducted during the year and summarizes the results of the following special audits and examinations: Long Term Planning and Access - Community Mental Health, Contract Management of Professional Services - Tourism PEI, Highway Construction, and Grants and Loans - Office of Energy Efficiency. The **Financial Audits** section provides information on significant issues arising from the financial statement audits and other audit procedures conducted by the Office.

As part of our work, we provide recommendations to departments and agencies to improve the management and administration of government operations and programs. On an annual basis, we contact departments and agencies to obtain follow-up information on the status of any outstanding recommendations from previous special audits and examinations. This information is included in a separate section of the report entitled **Update on Previous Recommendations**.

The **Standing Committee on Public Accounts** reviews the Auditor General's Annual Report and plays an important role in holding government accountable for the management of public resources. Information on the role of this Committee and its proceedings during the past year is provided in a separate section of the report.

The section on the **Office of the Auditor General** provides information on the mission and mandate of the Office as well as the responsibilities of the Auditor General. Background information is provided on the objectives and accomplishments of the Office and the resources used to achieve them.

ACKNOWLEDGEMENTS

In order to carry out the work of the Office, we require certain information, reports, explanations as well as other documentation. Cooperation of ministers, deputy ministers, CEOs of Crown agencies, boards and their staff is necessary. I wish to acknowledge the cooperation received in the completion of the audits covered in my Annual Report.

The preparation of this report and recommendations as well as the audits conducted by the Office are the result of the support and dedication of my staff. I would like to thank them for the effort, input, and professional manner in which they conduct themselves and perform their work. Their continued support is essential to the work and continued success of this Office.

INTRODUCTION

APERÇU DU RAPPORT

L'*Audit Act* (loi sur la vérification des comptes publics) stipule que le vérificateur général doit déposer un rapport devant l'Assemblée législative tous les ans. Mon rapport annuel 2012 fournit des observations, des recommandations et des renseignements sur les vérifications et les examens des activités du gouvernement menés par le Bureau au cours de l'année. Le but de ce rapport est d'aider l'Assemblée législative à s'acquitter de sa responsabilité de tenir le gouvernement responsable de la gestion des ressources publiques.

Mon rapport annuel 2012 traite principalement d'affaires portant sur l'exercice financier 2010-2011; toutefois, plusieurs des points mis en évidence demeurent actuels, et font toujours partie des préoccupations du gouvernement.

Une bonne partie du travail de vérification est définie par les exigences statutaires qui nomment le vérificateur général à titre de vérificateur. Ces exigences comprennent la vérification annuelle des états financiers des comptes publics de la province et de certaines autres entités publiques. Nous effectuons également des vérifications pour des entités publiques qui ne sont pas tenues par la loi de faire vérifier leurs états financiers. Le reste de nos ressources sont consacrées à des vérifications et à des examens spéciaux. Le Bureau s'efforce d'assurer une couverture de vérification raisonnable sur une base cyclique.

Le présent rapport comprend des renseignements et une discussion sur les **finances de la province**. La section sur les **vérifications et examens spéciaux** comprend les résultats de divers examens menés durant l'année, elle résume les résultats des vérifications et examens spéciaux suivants : Planification à long terme et accès - Services communautaires en santé mentale, Gestion de contrats de services professionnels - Tourisme Î.-P.-É., Construction routière, et Subventions et prêts - Office de l'efficacité énergétique. La section de la **vérification des états financiers** fournit des renseignements sur les questions importantes découlant des vérifications des états financiers et d'autres procédures de vérification menées par le Bureau.

Dans le cadre de notre travail, nous offrons des recommandations aux ministères et organismes afin d'améliorer la gestion et l'administration des activités et des programmes du gouvernement. Sur une base annuelle, nous communiquons avec les ministères afin d'obtenir des compléments d'information sur le statut de l'une ou l'autre des recommandations des vérifications et des examens spéciaux précédents. Ces renseignements sont compris dans une section séparée du rapport intitulée ***Update on Previous Recommendations*** (mise à jour des recommandations antérieures).

Le **Comité permanent sur les comptes publics** révise le rapport annuel du vérificateur général, et joue un rôle important en rendant le gouvernement responsable de la gestion des ressources publiques. Les renseignements sur le rôle de ce comité et de ses travaux au cours de la dernière année apparaissent dans une section particulière du rapport.

La section sur le **Bureau du vérificateur général** offre des renseignements sur la mission et le mandat du Bureau, ainsi que les responsabilités du vérificateur général. Des renseignements généraux sont fournis sur l'objectif et les réalisations du Bureau ainsi que les ressources utilisées pour y parvenir.

REMERCIEMENTS

Afin d'accomplir le travail du Bureau, nous avons besoin de certains renseignements, rapports et explications ainsi que d'autres documents. La collaboration des ministres, sous-ministres, directeurs généraux et conseils d'administration des sociétés d'État et leur personnel est nécessaire. Je souhaite souligner la collaboration générale de ces personnes dans le cadre des vérifications présentées dans le présent rapport annuel.

La préparation du présent rapport et des recommandations ainsi que les vérifications menées par le Bureau sont le résultat du soutien et du dévouement de mon personnel. J'aimerais les remercier pour leurs efforts, pour leur contribution et pour le professionnalisme dont ils ont fait preuve dans l'exécution de leurs tâches. Leur appui continu est essentiel à la réalisation des travaux du Bureau et au succès durable de celui-ci.

1. THE PROVINCE'S FINANCES

OVERALL COMMENTS

1.1 Each year we comment on the province's finances. The financial position of the province for the most recent fiscal year is discussed and comparisons are made with prior years. This information is important because it indicates where we are financially. The consolidated financial statements are the primary source of information to assess the financial condition of the province.

1.2 For 2010-11, the province recorded a deficit of $52.5 million. The net debt increased by $114.2 million or 7.2 percent and stands at $1.7 billion at March 31, 2011. The province's net debt is significant and has increased by $279.4 million, or 19.7 percent, over the past two years. During 2010-11, the GDP of the province grew by 5.5 percent.

BACKGROUND

1.3 The province's Public Accounts report the government's financial activities in accordance with the recommendations of the Canadian Institute of Chartered Accountants. The statements combine the financial activities of many diverse government programs and entities with expenses totalling approximately $1.6 billion.

1.4 We are providing information to assist the Legislature and the public in obtaining a better understanding of the province's financial condition. The province's finances have a significant impact on the provincial economy.

1.5 This discussion of the province's finances is based on the consolidated financial statements which include departments, Crown corporations and agencies which are all part of the government reporting entity.

FINANCIAL MEASURES

1.6 Some of the common terms used to describe the province's financial condition are presented below.

1.7 The **annual surplus or deficit** is the difference between a government's revenues and expenses. This measure shows the extent to which revenues raised in the year were sufficient to cover expenses in that year. For the year ended March 31, 2011, the province recorded a deficit of $52.5 million.

1.8 The **total debt** is the amount owed by government. Government's debt includes outstanding debentures, pension obligations, and other payables. The total debt of the province as of March 31, 2011, was $2.4 billion.

1.9 **Financial assets** are cash and other assets which could provide resources to pay liabilities or finance future operations. Total financial assets at March 31, 2011 were $735 million.

1.10 The **net debt** is equal to the difference between the government's total liabilities and its financial assets. The net debt of the province as of March 31, 2011 was $1.7 billion.

1.11 **Non-financial assets** do not normally provide resources to discharge liabilities. These include tangible capital assets such as buildings, roads, and equipment as well as prepaid expenses and inventories. The book value of tangible capital assets increases as they are acquired and is reduced over a period of time through amortization. At March 31, 2011, non-financial assets had a net book value of $829.7 million.

1.12 The **accumulated deficit** represents the province's liabilities net of the assets the province has acquired; both financial and non-financial. It is calculated based on the surpluses and deficits incurred over the years. The accumulated deficit at March 31, 2011, was $865.9 million.

1.13 The **interest charged on borrowings** is the amount required to service the debt and must be taken from revenues before any expenditures can be made on government programs and services.

1.14 The **gross domestic product (GDP)** is a measure of the value of all goods and services produced in the province in a year. The province's GDP is measured and reported by Statistics Canada.

1.15 **Exhibit 1.1** shows a summary of some key financial measures for the province over the past five years.

EXHIBIT 1.1
SUMMARY OF FINANCIAL INFORMATION
YEAR ENDED MARCH 31
(Millions)

	2011	2010	2009 Restated	2008 Restated	2007 Restated
Surplus (Deficit)	$ (52.5)	$ (74.4)	$ (30.7)	$ (1.0)	$ 25.8
Increase (decrease) in net debt	$ 114.2	$ 165.2	$ 69.1	$ 34.9	$ (10.7)
Net debt	$1,695.6	$1,581.4	$1,416.2	$1,347.1	$1,312.2
Non-financial assets	829.7	739.1	648.3	609.8	580.9
Accumulated deficit	$ 865.9	$ 842.3	$ 767.9	$ 737.3	$ 731.3
Debt charges	$ 107.7	$ 104.0	$ 108.5	$ 118.9	$ 120.3
GDP*	$5,010.0	$4,750.0	$4,716.0	$4,538.0	$4,332.0

*Source: Statistics Canada

FINANCIAL HIGHLIGHTS

1.16 **Exhibit 1.2** shows the change in the deficit from 2009-10 to 2010-11.

EXHIBIT 1.2
CHANGE IN DEFICIT
YEAR ENDED MARCH 31
(Millions)

	Revenues	Expenses	Deficit
2009-10 Deficit	$1,506.9	$1,581.3	$74.4
Increased tax revenue	30.5	-	
Decreased other government revenue	(.1)	-	
Increased Sinking Fund earnings	4.0	-	
Increased Government Business Enterprises	4.7	-	
Increased Health and Wellness	-	28.2	
Increased Innovation and Advanced Learning	-	5.9	
Decreased Finance and Municipal Affairs	-	(23.2)	
Increased Community Services, Seniors and Labour	-	4.1	
Increased Education and Early Childhood Development	-	10.6	
Decreased Transportation and Infrastructure Renewal	-	(7.8)	
Decreased Agriculture	-	(8.4)	
Increased interest charges on debt	-	3.7	
Increased amortization	-	5.0	
Decreased other expenses	-	(.9)	
2010-11 Deficit	$1,546.0	$1,598.5	$52.5

1.17 The growth in revenues for 2010-11 was due to an increase in provincial revenues. This increase was primarily from increased tax revenue, increased sinking fund earnings and increased earnings of government business enterprises. The majority of the increase in tax revenue related to increases in personal income tax of $14 million, corporate income tax of $6 million, and property tax of $4.6 million. Although there were changes in the mix of federal revenue, the total level of federal funding remained relatively constant.

1.18 Due to significant surpluses of the federal government, the provinces were provided with supplementary funding which was administered through trusts. The Province of Prince Edward Island's share of these funds between March 31, 2005 and March 31, 2009 totalled $109.2 million. The province also received $15 million in additional infrastructure funding in 2010-11 under the New Deals for Cities and Communities Programs. The balance of $4.4 million of the trusts will be recorded as revenue in subsequent fiscal years. Based on the current federal fiscal situation, this type of supplementary funding may not be available over the next number of years.

1.19 In 2010-11, the province received $42 million in funding under the Base Funding for Infrastructure program. Funds under this program were originally to be received over seven years, $25 million per year, however funding was accelerated. The final installment of the base infrastructure funding of $41 million will be received in 2011-12.

1.20 The province has also received significant funds from defaulted Good Faith, Language, and Entrepreneur Program deposits under the Provincial Nominee Program (PNP). The balance of PNP deposits is $64 million at March 31, 2011. As these funds are in trust, they are only available to the province in cases of default.

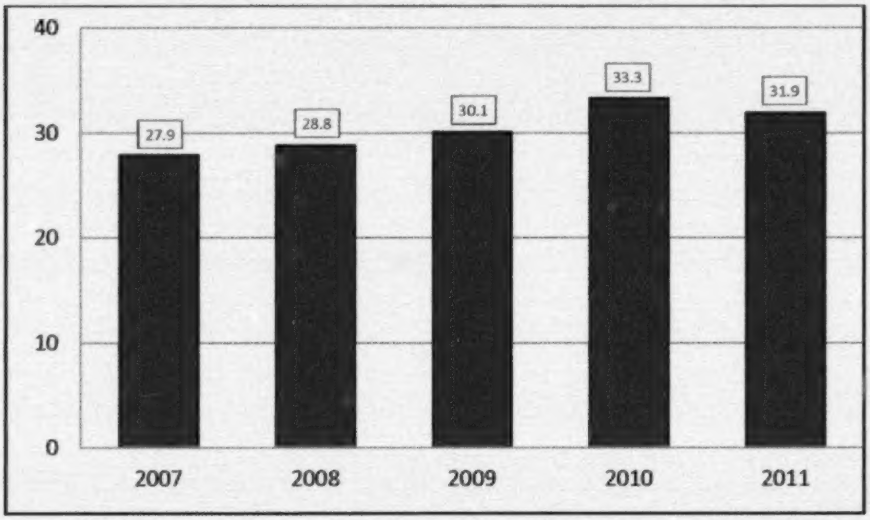
1.21 The majority of the funds summarized in **Exhibit 1.3** have been recorded as revenue in the Public Accounts of the province.

EXHIBIT 1.3
SUMMARY OF ADDITIONAL FUNDING
YEAR ENDED MARCH 31
(Millions)

Year	Supplementary Funding Trusts	Base Funding for Infrastructure	PNP Deposit Defaults	Total
2005	$ 2.7	$ -	$ 0.3	$ 3.0
2006	4.8	-	1.2	6.0
2007	10.8	-	2.4	13.2
2008	22.9	25.0	2.1	50.0
2009	29.7	25.0	4.7	59.4
2010	28.0	42.0	17.4	87.4
2011	20.9	42.0	16.9	79.8
Total	**$119.8**	**$134.0**	**$45.0**	**$298.8**

1.22 **Exhibit 1.4** shows that government spending as a percentage of GDP has been increasing. Although there was a slight decrease for 2010-11, the percentage is 4 points higher than in 2007. This trend indicates that the growth in expenses is at a rate greater than the growth in the economy.

EXHIBIT 1.4
EXPENSES AS A PERCENT OF GDP
YEAR ENDED MARCH 31

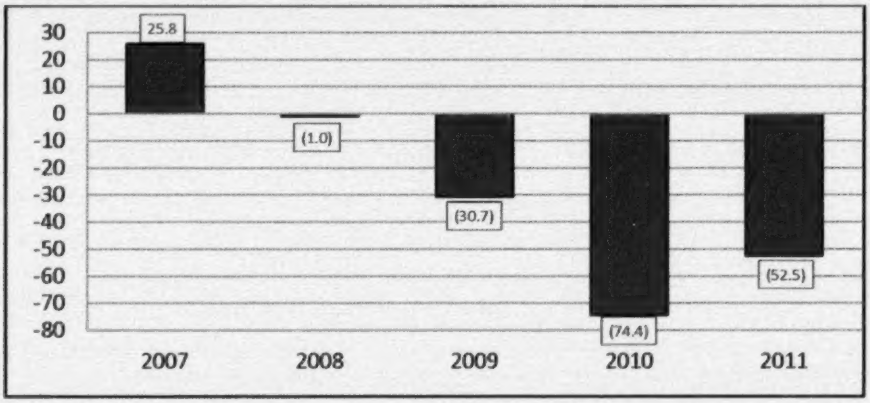


SUSTAINABILITY

1.23 Sustainability indicates whether the province can maintain programs and meet existing creditor requirements without increasing the debt burden on the economy. A comparison of the government's annual surplus or deficit, net debt, and the provincial GDP provides insight into the sustainability of a government's practices of incurring expenses and generating revenues.

1.24 The annual surplus or deficit indicates the extent to which a government spends more or less than what is raised in revenue in a particular year. It basically shows whether a government is living within its means. **Exhibit 1.5** shows the annual surplus (deficit) for the last five years. For these years, the combined total is a deficit of $132.8 million. For 2010-11, the province recorded a deficit of $52.5 million.

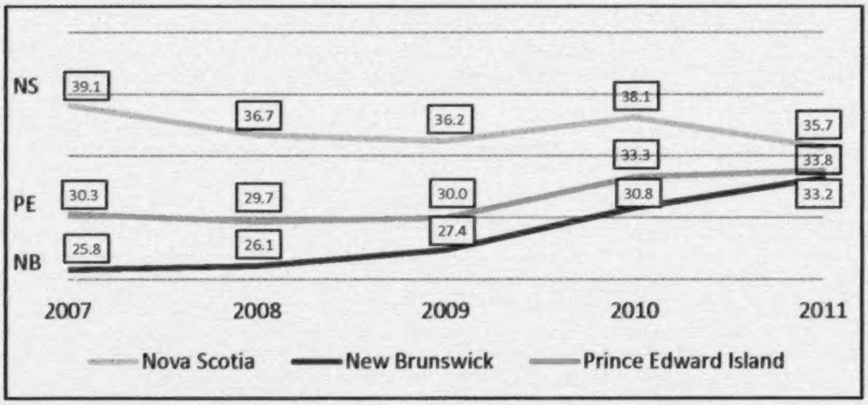
EXHIBIT 1.5
SURPLUS (DEFICIT)
YEAR ENDED MARCH 31
(Millions)



1.25 The net debt is the difference between government's total liabilities and its financial assets. Over the past five years, the net debt has increased by $372 million totalling $1.7 billion as of March 31, 2011.

1.26 **Exhibit 1.6** shows the net debt to GDP ratios for the last five years and compares them to New Brunswick and Nova Scotia. For 2011, the ratio continued its increasing trend.

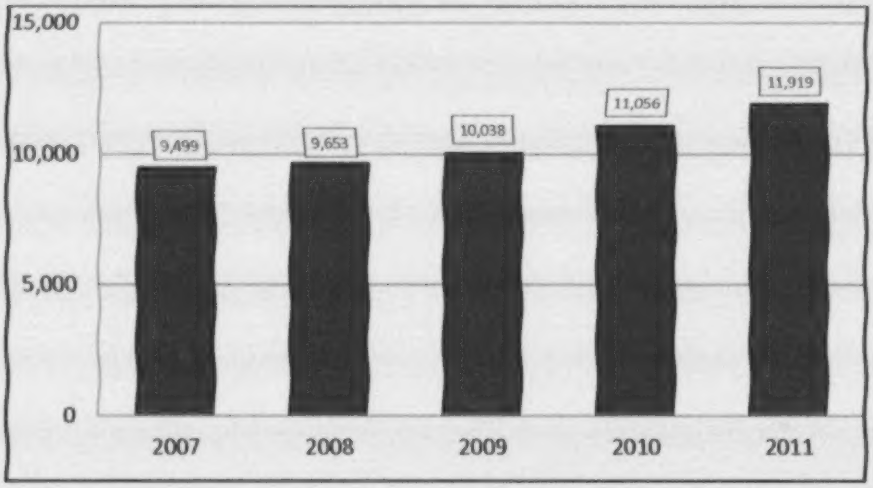
EXHIBIT 1.6
NET DEBT AS A PERCENT OF GDP
YEAR ENDED MARCH 31



Source: provincial Public Accounts

1.27 Exhibit 1.7 shows the net debt per capita, the amount of the province's net debt per person, for the five years ended March 31, 2011. The net debt per capita has increased by 25.5 percent over this period. During the same period, based on information in their 2010-11 Public Accounts, New Brunswick's net debt per capita has increased by 40.3 percent to $12,573 and Nova Scotia's net debt per capita has increased by 3 percent to $13,610.

EXHIBIT 1.7
NET DEBT PER CAPITA
YEAR ENDED MARCH 31



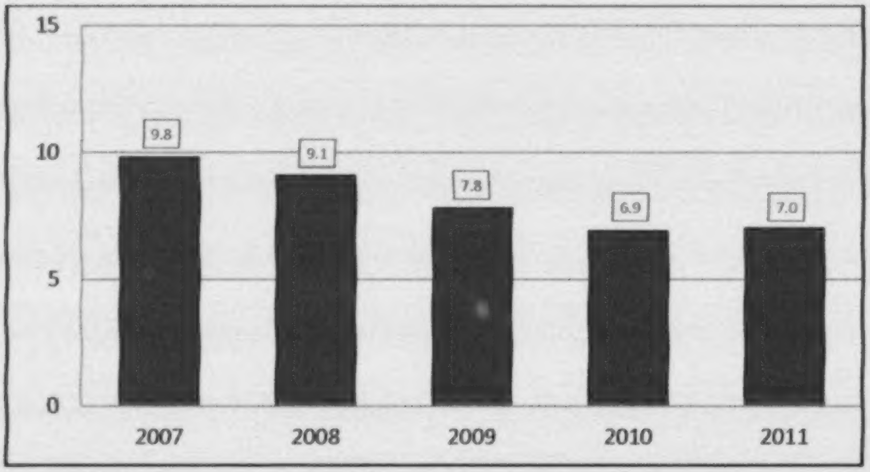
FLEXIBILITY

1.28 *Government's flexibility is the degree to which it can increase its financial resources to respond to rising commitments by either expanding its revenues or increasing its debt.* A government meets the test of flexibility when it can respond to changing economic conditions, such as a recession or higher interest rates, without making substantial changes to the way it operates.

1.29 A government's net debt and debt charges provide insight into whether it can respond to rising commitments without increasing its revenues. A rising debt burden and debt charges indicate there are fewer resources to allocate to programs and services.

1.30 One measure of a government's flexibility is the interest cost as a percentage of total revenue. This is sometimes referred to as the "interest bite." In 2010-11, debt charges on government borrowings were $108 million. The trend in the interest bite is shown in **Exhibit 1.8.**

EXHIBIT 1.8
INTEREST COST AS A PERCENT OF REVENUE
YEAR ENDED MARCH 31

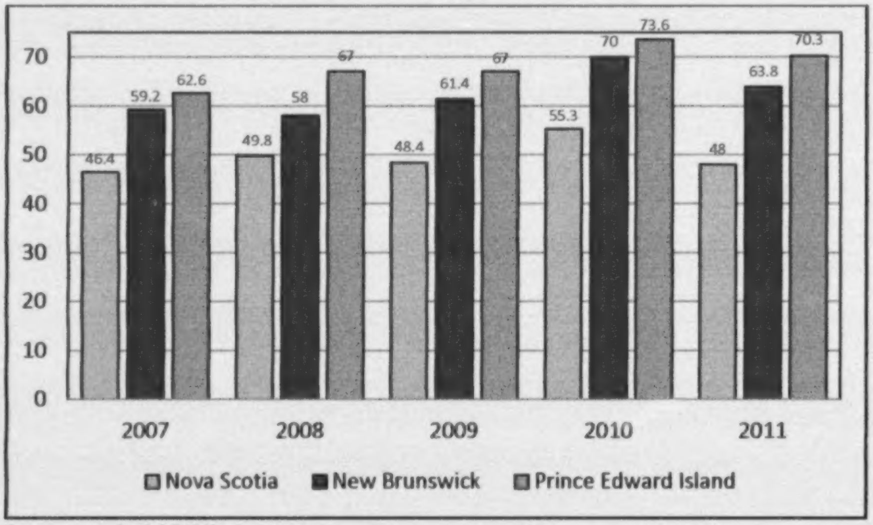


1.31 Our debt is over two billion dollars. The first $108 million of revenue must be earmarked to pay interest costs and is unavailable for government programs. Recent debenture issues have been for 5 to 32 year terms at comparatively low interest rates. Although debenture interest rates are fixed, the province carries significant short-term debt (March 31, 2011 - $367 million) and renews approximately $100 million in debentures each year. Each one percentage point change in interest rates on this amount of debt would result in a $4.7 million change in the interest cost.

VULNERABILITY

1.32 Vulnerability is the degree to which a government is dependent on, and therefore vulnerable to sources of funding outside its control or influence. In 2010-11, the federal government provided revenue of $638 million to the province. **Exhibit 1.9** shows the trend in federal revenues relative to provincial own-source revenues for the last five years. Although the percentage has decreased in 2010-11, the province is significantly more vulnerable to changes in federal revenues than Nova Scotia and New Brunswick.

EXHIBIT 1.9
FEDERAL REVENUE AS A PERCENT OF OWN-SOURCE REVENUE
YEAR ENDED MARCH 31



Source: provincial Public Accounts

SUMMARY

1.33 It is important for members of the Legislative Assembly to have a regular update on the financial condition of government. This section provides summary information using indicators recommended by the Canadian Institute of Chartered Accountants. The indicators provide useful insight into government's ability to sustain its programs, the flexibility it has to respond to economic changes, and its vulnerability to sources of outside funding. The indicators help put the finances of government into perspective and assist members to understand and interpret the information.

1.34 Further to the preceding discussion, we recognize there are other relevant non-financial matters which have to be taken into consideration by members of the Legislative Assembly in making budgetary decisions and setting government policy direction.

SPECIAL AUDITS AND EXAMINATIONS

2. INTRODUCTION TO SPECIAL AUDITS AND EXAMINATIONS

AUDIT PROCESS

2.1 Under the *Audit Act,* the Auditor General may conduct any audit or examination considered necessary to determine whether any agency of government is achieving its purpose, is doing so economically and efficiently, and is complying with applicable statutory provisions.

2.2 Special audits and examinations are independent and objective assessments of how well government is managing its activities and responsibilities. These audits are planned, performed, and reported in accordance with standards established by the Canadian Institute of Chartered Accountants.

2.3 There are three distinct phases in these types of audits. In the planning stage, audit staff obtain a thorough knowledge of the auditee organization or program and the environment in which it operates. This knowledge is obtained from a variety of sources and is used to develop an audit plan which contains the purpose, objectives, audit criteria, scope, and timing of the audit. The criteria are the standards against which the auditee's performance is assessed. Before moving on to the second phase, management approves the suitability of the audit criteria. During the second, or implementation stage, the auditor performs tests and gathers sufficient appropriate audit evidence which is then evaluated and analyzed. In this phase, we assess performance against established criteria and identify findings which are cleared with management prior to drafting our report. In the third stage, a report is drafted which includes audit observations and recommendations. The auditee is provided with a copy of the draft report for discussion purposes. At the conclusion of the audit, a final report is issued to the department or agency, and a written response is requested from management.

2.4 Due to the size of our Office and the complexity and magnitude of government operations, we cannot audit all government programs on an annual basis. There are numerous factors that influence the preparation of our annual audit program including the results of previous audits, the total revenues and expenses at risk, the complexity of entity operations, the significance of potential issues that may be identified by an audit, and the impact of the program on the public.

2.5 As a result of our work, we provide recommendations to management to address issues identified. We do not, however, infringe on management's right to select the most appropriate course of action to deal with the issues identified. As auditors, our primary concern is that action is taken to address the issues identified as a result of our audits.

2.6 This report provides information on the following special audits and examinations:

- Long Term Planning and Access - Community Mental Health;
- Contract Management of Professional Services - Tourism PEI;
- Highway Construction; and
- Grants and Loans - Office of Energy Efficiency.

3. LONG TERM PLANNING AND ACCESS - COMMUNITY MENTAL HEALTH

MAIN POINTS

What we examined

Community mental health services have far reaching impacts. It is estimated that one in five people will experience some form of mental illness in their lifetime.

This audit report contains the results of work carried out under phase I of our audit on community mental health. We assessed whether a comprehensive long-term plan was developed to set direction for community mental health in Prince Edward Island. Our work also included procedures to determine whether PEI residents had timely access to community mental health programs and services. This included a review of referrals for service and wait times from referral to date of service delivery.

Additional work on community mental health will be completed and the results will be included in our 2013 Annual Report.

Audit work for this report was substantially complete as of January 2012.

Why it's important

Good mental health is associated with improved health outcomes and results in a decreased financial burden on the health care system. According to a 2008 article in *Chronic Diseases in Canada* published by the Public Health Agency of Canada, the economic burden of mental health disorders in Canada has been estimated at $51 billion per year in terms of health care and lost productivity.

In 2010-11, expenditures incurred by Health PEI for community mental health services totalled $7.4 million. This does not include expenditures for psychiatrists totalling $5 million, a portion of which relates to community mental health.

What we found

- The Ministry of Health and Wellness does not have a comprehensive long-term plan for community mental health. A strategy was developed by Health PEI to improve service delivery, but it was not intended to be a broad provincial strategy for community mental health.

- Referrals for service were not always addressed within the timeframe established in policy.

- Management did not have accurate, timely information to manage wait times for community mental health services. The case management system could not be used to provide accurate, reliable reporting because of inconsistencies in key information entered in the system.

- Wait times for community mental health services were excessive. The provincial average wait time target for 2010-11 was 28.8 days and our sample testing indicated an average wait time of 57 days.

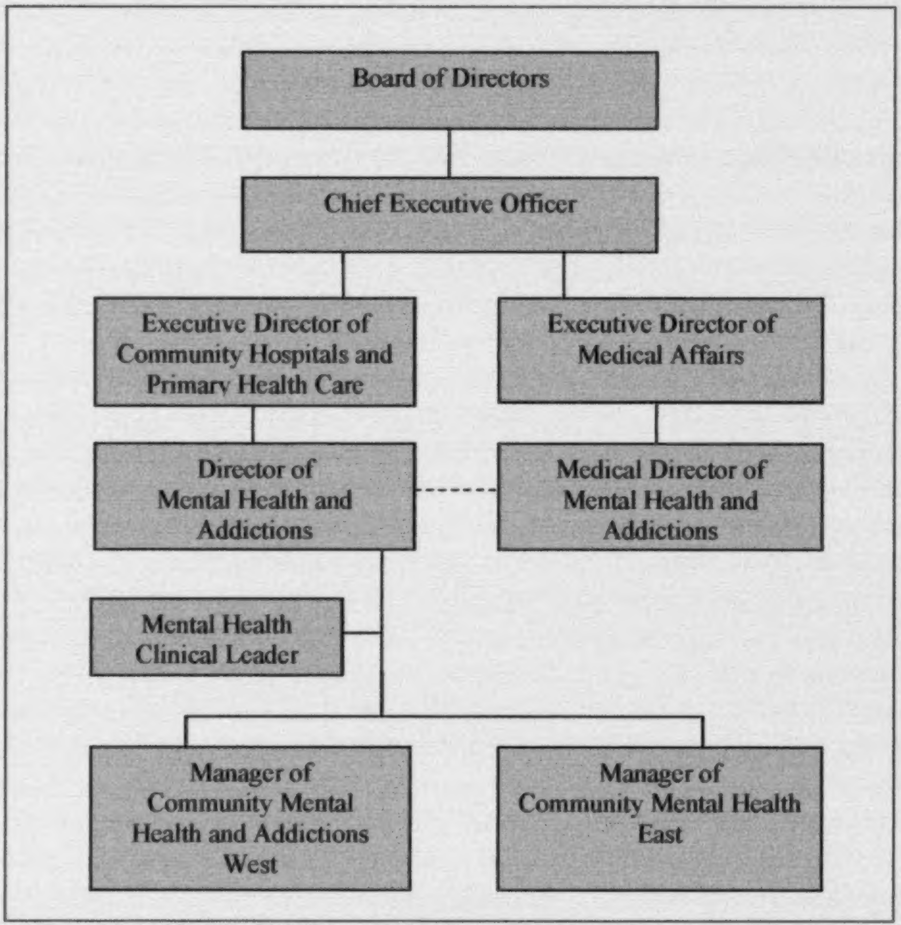
BACKGROUND

3.1 The Minister of Health and Wellness is responsible for health care in the province. Under the *Health Services Act*, the Minister is responsible for developing a provincial health plan. Health PEI, a Crown corporation, is accountable to the Minister and is responsible for delivery of health care services in accordance with this plan.

3.2 The *Mental Health Act* assigns the overall responsibility for mental health programs and services to the Minister of Health and Wellness. Under the *Mental Health Act*, the Minister appoints a director of mental health responsible for all mental health services in PEI including community mental health.

3.3 Health PEI delivers community mental health services through the Community Hospitals and Primary Health Care Division. The Director of Mental Health appointed pursuant to the *Mental Health Act* is the Director of the Mental Health and Addictions Section. **Exhibit 3.1** provides the organizational structure for the delivery of community mental health services in Health PEI.

EXHIBIT 3.1
COMMUNITY MENTAL HEALTH SERVICES
HEALTH PEI


Board of Directors
Chief Executive Officer
Executive Director of Community Hospitals and Primary Health Care
Executive Director of Medical Affairs
Director of Mental Health and Addictions
Medical Director of Mental Health and Addictions
Mental Health Clinical Leader
Manager of Community Mental Health and Addictions West
Manager of Community Mental Health East

Source: Adapted from Health PEI Organization Chart

3.4 The primary mandate of community mental health services is to provide community based assessment, treatment, consultation, and follow-up services to individuals with a range of mental health problems. These services are provided by professional staff including nurses, social workers, psychologists, and psychiatrists at seven sites across the province: Alberton, O'Leary, Summerside, McGill Mental Health Centre - Charlottetown, Richmond Centre - Charlottetown, Montague, and Souris.

3.5 These sites provide a range of programs including screening and assessment, consultations, treatment, crisis intervention, medication administration and monitoring, and outreach. In 2010-11, there were approximately 4,700 referrals for community mental health services.

3.6 In addition to services provided at these seven sites, a grant is provided to a non-government organization (NGO) to assist in the delivery of further community mental health programs and services. These include clubhouses, residential services, prevention initiatives, and community development.

3.7 Expenditures in 2010-11 incurred by Health PEI for community mental health services totalled $7.4 million. This does not include payments to psychiatrists.

OBJECTIVE AND SCOPE

3.8 This audit is phase I of a multi-year audit on community mental health. The objectives of this audit were to determine whether

- a long-term plan has been developed to set direction for community mental health; and
- residents of Prince Edward Island had timely access to community mental health programs and services.

3.9 We identified audit criteria which are the standards we used to assess performance. Senior management of Health PEI and the Department of Health and Wellness reviewed and agreed with the suitability of the audit criteria used in the audit.

3.10 Our audit scope included community mental health. We did not examine addictions or acute mental health services or programs.

3.11 We focused on planning carried out through the Ministry of Health and Wellness, both at the Department as well as Health PEI. We examined client files to determine whether referrals were addressed in accordance with policy. We obtained information on the management and reporting of wait times and selected a sample of files to assess whether clients received an assessment within a reasonable timeframe. We focused on services initiated during 2010-11.

3.12 Our audit included a review of legislation, regulations, policies and various other documents. We selected a number of samples of clients who had a referral for services or received services through community mental health. These samples included children, adults, and outreach clients. In addition, we interviewed various personnel from within the Department and Health PEI as well as representatives of the NGO that receives funding to provide specific community mental health services.

3.13 We performed our audit in accordance with the standards for assurance engagements encompassing value-for-money audits established by the Canadian Institute of Chartered Accountants and accordingly included such tests and other procedures as we considered necessary in the circumstances.

OBSERVATIONS AND RECOMMENDATIONS

SETTING DIRECTION

Roles and Responsibilities

3.14 The Minister of Health and Wellness (the Minister) is responsible under the *Health Services Act* to provide leadership to the health system through the establishment of a provincial health plan. A *PEI Health System Strategic Plan 2009-2012* was released which describes the overall strategic direction for the health system in PEI.

3.15 The Department of Health and Wellness (the Department) and Health PEI both have a role in providing health care in the province. The provincial health plan states that the Department does not directly manage health operations but provides leadership to the system through its strategic planning, funding decisions, negotiations, bargaining and accountability frameworks. Under the guidance of the Department, Health PEI is responsible for delivery of health services including mental health services.

3.16 Separate legislation exists for mental health services. The *Mental Health Act* outlines specific responsibilities related to the mental health needs of Islanders. It sets out broad functions for the Minister to determine the appropriate needs for mental health services; provide for places for care and treatment, community residential services, and rehabilitation services; and coordinate services for all mental health providers. In addition, the Minister appoints a Director of Mental Health who has a number of broad responsibilities which are set out in the *Mental Health Act*.

3.17 Senior management at Health PEI and the Department advised that much of the legislation in the Ministry of Health and Wellness is outdated and has not been revised to reflect the current service delivery model for health with a separate operating agency. Even though the responsibilities of the Director of Mental Health are very broad and include designing a strategy for mental health, the Department of Health and Wellness has acknowledged responsibility for strategic planning for the health system which includes mental health.

Planning

3.18 We requested copies of any strategic or long-term plans for mental health from both the Department and Health PEI. We expected a long-term plan to be documented either as a stand alone community mental health plan or as part of a larger plan for mental health and addictions. This plan should set direction for community mental health in PEI and include measurable goals and objectives based on the assessed needs of the population. Such a plan should be endorsed by the Minister of Health and Wellness and the status of implementation reviewed on a regular basis.

3.19 We also expected a long-term plan to be comprehensive in addressing broad aspects of community mental health programming and include the key elements of a community mental health plan as indicated in a number of authoritative sources including:

- the World Health Organization *Mental Health Policy and Services Guidance Package* - which is intended to support the development of mental health policies and service planning;
- a strategy framework published by the Canadian Mental Health Commission;
- accountability information from the Federal/Provincial/Territorial/working group on mental health; and
- mental health strategies in several other provinces.

3.20 Senior management of the Department advised that there is no documented comprehensive long-term plan for community mental health.

3.21 Health PEI has developed a strategy, *The Path Forward: Prince Edward Island Mental Health Services Strategy*. The strategy and supporting documents include goals and objectives, performance indicators and timelines for completion. However, senior management at Health PEI advised that the strategy covers mental health services delivered by Health PEI and was not intended to be a broad strategy for community mental health. We noted the strategy focuses on clinical services provided by Health PEI and is not comprehensive because it does not address certain broad aspects of community mental health including prevention of mental illness, promotion of good mental health, and strategies to address rehabilitation through, for example, housing and employment initiatives.

3.22 There are some programs and services within various government departments that address broader community mental health needs but there is no coordinated approach for ensuring these needs are being identified and addressed in a comprehensive plan for community mental health. This is especially relevant to client groups served by, for example, the departments of Community Services and Seniors, Education and Early Childhood Development, and Environment Labour and Justice. The development of such a plan involves inter-departmental collaboration and requires coordination at the deputy minister level. We were advised at the time of our audit that an inter-departmental committee had been recently established to begin work on these issues.

3.23 In any long-term plan it is not incumbent that all services be delivered directly by government. An annual grant is provided by the Ministry of Health and Wellness to an NGO for community mental health programs and services. These services include residential services, clubhouses, prevention initiatives, and community development. We expected a funding agreement would be in place to outline the services to be provided and the accountability reporting required.

3.24 We noted that the NGO and Health PEI had a number of meetings to discuss services and related funding, but there was no documented agreement with the NGO for the fiscal year 2010-11. Under legislation, the Ministry is responsible to ensure that the mental health needs of PEI residents are being addressed. If delivery of services is delegated to an NGO, an agreement is important to identify those needs, how they are to be addressed, and at what cost.

3.25 In summary, there is no comprehensive long-term plan documented for community mental health. Services are being delivered through Health PEI, an NGO, and various inter-related government programs. It is a system of services without a broader strategy to assess needs and set direction. Without a comprehensive plan, there could be gaps in service, needs that are not identified, and inadequate collaboration among service providers.

Recommendations

3.26 The Department of Health and Wellness should develop a comprehensive long-term plan for community mental health.

3.27 The Ministry of Health and Wellness should have a documented agreement with the NGO which at a minimum sets out

- **the funding provided;**
- **the services to be delivered; and**
- **the information required to demonstrate how the funding was used.**

ACCESSING SERVICE

3.28 In general, community mental health services are organized based on the characteristics of the client as follows:

- outreach - services provided to long-term clients who suffer from a persistent psychotic disorder and may require ongoing medications;
- adult - services directed to individuals who have an issue, usually anxiety or depression, where the treatment plan is expected to be relatively short term; and
- children - services provided to clients 19 years of age or younger.

3.29 A number of policies and guidelines have been developed to provide expectations for service delivery in several areas including intake, triage, referrals, and assessments. We noted that some revised policies were drafted in 2010 but they had not been approved by Health PEI at the time of our audit. Throughout our audit, we also noted examples where policies are ambiguous or additional clarification is required. These are noted in the relevant sections that follow.

Referrals

3.30 Community mental health services are initiated with a referral for service. A referral can come from a number of different sources including a hospital upon discharge, a doctor, another agency, a family member, or the client. According to the community mental health policy, referrals are to be reviewed within three working days. If there is an indication of acute distress or danger, the policy indicates that the referral must be reviewed within 24 hours.

3.31 Sufficient information must be obtained to triage the clients. Obtaining the necessary information to make a decision on the appropriate triage level is referred to as screening. Effective July 2010, a guideline was implemented by Health PEI which requires that a triage level of either urgent, priority, or general be assigned based on screening. The intention of this guideline is that clients should receive timely services based on the triage level assigned.

3.32 Screening is often carried out through a telephone interview but may be conducted face to face. Sometimes it is difficult to contact clients depending on their circumstances. We noted inconsistencies among sites on the number of attempts to contact the client. There is no policy or guideline on the required number of attempts to contact the client for screening.

3.33 We selected a sample of referrals for children, adults, and outreach and tested to determine whether they were reviewed within three days in accordance with policy. For purposes of reporting the results of our audit testing, we considered a referral to be screened in compliance with policy if the screening document was completed, or where there was difficulty in contacting the client, there were at least two attempts to contact the client within three working days of receiving the referral. Based on our review of the client files, we found that 29 percent of the referrals in our sample were not reviewed within three working days.

3.34 Documented triage levels are important for prioritizing cases, and we examined all screened referrals in our sample to determine whether a triage level was assigned. For sample items requiring a triage level, we noted seven percent did not have a triage level assigned as required by the guidelines.

Recommendations

3.35 Health PEI should establish a guideline setting the minimum number of attempts for community mental health to contact clients for screening.

3.36 Health PEI should ensure referrals to community mental health are screened in the timeframe established in policy.

3.37 Health PEI should ensure a triage level is assigned to all referrals screened by community mental health.

Hospital Referrals

3.38 It is not uncommon in mental illness that circumstances will give rise to a crisis and the person will be admitted to a psychiatric ward or be seen in the emergency department. Upon discharge from hospital, a client will often be referred to community mental health for follow-up and therapy as part of a treatment plan. While not all persons discharged from hospital are in crisis, generally speaking these people tend to be higher risk as they have recently required acute care. The policy at the time of our audit stated that all referrals will be reviewed within three working days, and where there is distress or danger, follow-up within 24 hours is required.

3.39 We selected a sample of clients discharged from the psychiatric wards at the Prince County Hospital (PCH) and the Queen Elizabeth Hospital (QEH). We obtained information to determine whether the clients in our sample were contacted within three working days unless the discharge treatment plan indicated other action. We noted issues with five referrals. In one case, although the discharge documentation indicated a referral to community mental health was required, the referral was not received. In another case, the referral from the hospital was cancelled by community mental health at intake. In two of these five referrals, there was no evidence in the file that the client was contacted for an extensive period. First contact with the client was when service was provided: in one case 21 days and the other 78 days. In the fifth referral, there was only one attempt to contact the client within three working days.

3.40 In our other sample testing of referrals there were 10 instances where the source of the referral to community mental health was the hospital emergency department. We examined compliance with the policy requiring review of referrals within 24 hours where there is distress or danger. Based on our review of client files, we noted one instance where an urgent referral that was made from the hospital was not reviewed within 24 hours as required. A crisis referral was made from a hospital to follow up a client who had attempted suicide. Community mental health made one attempt to contact the client the following day but did not attempt contact again for six days.

3.41 During our audit, we noted communication issues between hospitals and community mental health. As part of our sample testing, we noted instances where clients actively receiving therapy from community mental health were admitted to hospital and community mental health was not aware. In one of these instances, community mental health had made repeated attempts to contact the client, not knowing they had been admitted. Another communication issue involved a two week delay from the time the referral was prepared at the hospital to the date of receipt by community mental health. We were also advised by staff at community mental health that there are delays in receiving discharge information from hospitals and communications and coordination between hospitals and community mental health are in need of improvement. Good communication between hospitals and community mental health assists in providing continuity of care for the client.

Recommendations

3.42 Health PEI should ensure referrals from hospitals to community mental health are reviewed in the timeframe established in policy.

3.43 Health PEI should implement a process to improve communication between hospitals and community mental health.

Wait Times

3.44 After initial screening, each client should receive an assessment within a reasonable timeframe. The assessment normally documents the issues and circumstances surrounding the client's case and includes a treatment plan that is developed with the client. This assessment and subsequent therapy are the services provided to assist the client with recovery.

3.45 Wait time is the time from the date community mental health received a referral to the date of assessment. From the client's perspective, this is the period of most concern, from referral to the date of service.

3.46 Management of wait times is critical to ensure service demands are met on a timely basis. It is important that management receives accurate, timely information on the extent of the wait lists and where they are occurring. This will enable management to take appropriate action to address wait time issues.

3.47 At the outset of the audit, we requested information on wait times for accessing community mental health programs and services. Although information was available from the electronic case management system, management did not have confidence in the data and therefore was not using it. Monthly information on caseloads and the number of services opened was collected, but it did not include wait times.

3.48 To determine whether clients received an assessment within a reasonable timeframe, we selected a sample of interventions for adult, youth, and outreach clients. We examined the files to verify the time from referral to assessment. In cases where a referral included multiple services involving community mental health, we measured wait times from referral to first service delivered.

3.49 Based on our sample testing, we found wait times were excessive. The overall average wait time for all assessments in our sample was 57 days which is significantly higher than the 2010-11 provincial average wait time target of 28.8 days noted in a project charter of the Health PEI Mental Health Services Strategy. The average wait time in our sample, broken down by type of client, is illustrated in **Exhibit 3.2**.

EXHIBIT 3.2
AVERAGE WAIT TIME BASED ON SAMPLE ITEMS TESTED

Client Group	Average Wait Time in Days
Adult	60
Youth	79
Outreach/Acute Adult	20

3.50 For our sample items, we also assessed whether the circumstances of the case justified a longer wait time. For example, in one case a client wanted a specific therapist and was willing to wait longer for that person. In another case, community mental health made many attempts to contact the client for service but could not reach them. Even where exceptions were factored into the calculation, the average wait time for our sample was 52 days.

Triage Levels

3.51 Triage guidelines were developed by community mental health and implemented effective July 2010. These guidelines provide criteria for ranking cases based on acuity. Where the screening indicates the case is urgent, action on the case is to occur within 24 hours. For priority and general cases, we noted there is no target response time identified in the guideline. It is difficult for management to assess performance where standards for service are not established.

3.52 Further, based on our sample the triage levels that were assigned did not correlate to the actual wait time for service. That is, there were numerous instances where general cases received service much sooner than cases triaged as priority. This was particularly an issue for the youth clients in our sample.

3.53 **Exhibit 3.3** illustrates the average wait time in our sample for assessments that were triaged as priority and general. This would not include cases where no triage level was assigned.

EXHIBIT 3.3
AVERAGE WAIT TIME
BASED ON SAMPLE ITEMS TESTED

Triage Level	Average Wait Time in Days
Priority	107
General	57

Wait Lists

3.54 After a referral is screened and a triage level determined, the case is assigned to a therapist or placed on a waiting list. We were advised that for case assignment purposes, various locations were maintaining manual wait lists. To gain a more complete picture of wait times, we requested the wait lists at each site. We were advised that as of December 12, 2011, West Prince and Eastern Kings essentially had no wait lists for therapy. Richmond Center had 106 adult clients on the wait list for an average of 18 days, the longest waiting 79 days. East Prince had 64 adult clients on the wait list for an average of 88 days with the longest waiting 209 days.

3.55 A centralized intake process was implemented for youth, effective September 2011. We were provided with the wait list for youth as at December 14, 2011, and there were 101 clients on the wait list for an average of 56 days with the longest waiting 253 days.

3.56 We also noted that the wait list information for East Prince is compiled differently than for Richmond Centre and youth. The East Prince wait list is compiled from the date of client screening, whereas Richmond Centre and youth wait lists are from the date of referral.

3.57 Further, we noted that East Prince has adopted a practice of sending a letter every three months to all people on the wait list. If clients do not confirm that they still want service, their file is closed. This practice understates the number of clients waiting for service. We noted two instances where clients' files were closed because they did not respond, but they subsequently obtained another referral and returned seeking service.

3.58 The high average wait times noted in our sample testing, the wide variation in the number of clients waiting for service at each site, and the inconsistency in wait times based on acuity points to the need for improved reporting and management of wait times.

Recommendations

3.59 Health PEI should take action to improve wait times for community mental health services.

3.60 The Director of Mental Health should obtain regular reliable information to monitor and manage wait times for community mental health services.

3.61 Health PEI should establish target response times for community mental health referrals that are triaged as general or priority.

Case Reviews

3.62 Community mental health clinicians that provide therapy services are professionals. Each case is unique to some extent and requires professional judgement in developing a treatment plan. The policy requires, at a minimum, annual documented case reviews.

3.63 We checked for the existence of documented case reviews at each site. We found that only McGill Centre had documented case reviews on file. We were advised that due to extensive wait lists, high risk cases were discussed at Richmond Centre but not documented, and East Prince had discontinued the case review process.

3.64 Supervisory case reviews are an important quality control process. Without supervisory case reviews, there is a higher risk that services are not meeting clients' needs and policies are not being consistently followed.

Recommendation

3.65 Health PEI should conduct and document periodic supervisory reviews of community mental health cases.

ELECTRONIC DATA

3.66 Community mental health uses a computerized case management system. Data is only reliable if it is consistently defined and input. Client information including referral, screening, and assessment dates, as well as case notes are entered in the system. Community mental health provides services at seven sites many of which, under the former health care structure, operated relatively independently from each other. There are inconsistencies in how each site is processing information for client files.

3.67 We expected key information in the case management system would be consistently and accurately recorded. We did not audit the entire management information system for community mental health. We focused on the reliability of the dates recorded within the case management system for referral, screening, and intervention in order to determine whether reports produced by the system would be reliable for monitoring and measuring performance. For our sample, we checked the reliability of key data by comparing to the paper files maintained at each site.

3.68 Based on our sample testing, we found that the dates recorded in the case management system were not always accurate. For example, the date entered in the case management system for screening was often the date the referral was received at community mental health rather than the actual screening date. In other cases, the date entered in the system for the assessment was the date the form was opened rather than the date of the assessment meeting. Where there are pervasive inconsistencies in the dates input, related reports and subsequent analysis are unreliable.

Recommendation

3.69 Health PEI should take steps to improve the consistency and reliability of information entered in the case management system for community mental health.

MANAGEMENT RESPONSE

3.70 Our report was discussed with senior management of the Department of Health and Wellness as well as Health PEI. A written response will be provided.

4. CONTRACT MANAGEMENT OF PROFESSIONAL SERVICES - TOURISM PEI

MAIN POINTS

What we examined

Tourism PEI (TPEI) engages a wide range of professional experts in carrying out its mandate. TPEI contracts with advertising, IT, and other professionals to assist in delivering its programs. We looked at a sample of Tourism PEI's professional services contractual arrangements that were in effect during the 2009-10 and 2010-11 fiscal years. Our sample covered 70 percent of the amounts charged to professional services during 2009-10 and 78 percent of the amounts charged to professional services during 2010-11.

During our audit, we looked at three distinct processes within contract management: contract awards, contract terms, and contract payments. In each process, we compared TPEI's practices to the requirements of various Treasury Board policies, trade agreements, and legislation.

Audit work for this report was substantially complete as of October 2011.

Why it's important

Tourism PEI has spent, on average, $4.2 million in each of the last two fiscal years on professional services. It is important for Tourism PEI to have internal controls to manage these contractual arrangements to protect the interests of the province and to promote a fair and transparent procurement process. Internal controls must exist and be consistently applied in order to work effectively.

What we found

- There is a lack of controls and oversight over contract management that has lead to inconsistent adherence to TB policy and legislation throughout the contracts we reviewed.

- Of the 31 contractual arrangements we looked at, 9 required TB approval because the contract value exceeded $100,000 or because the project had changed materially in scope or price. Of those nine, only in three cases did TPEI seek TB approval as required.

- Of the 31 contractual arrangements we examined, 21 had a contract value that exceeded $25,000 thus requiring two signatures of TPEI's senior management pursuant to TPEI's internal delegation of signing authority. Of those 21, only three had the required two signatures.

- Fifty-five percent, or 17 of the contractual arrangements we looked at had significant deficiencies in the contract terms. Of those 17, 12 did not have terms documented.

- TPEI paid $1.58 million in accordance with the payment schedule defined by a contract; however, invoices did not provide adequate detail to support the payments. Invoices made no link to the tasks listed in the contract. Further, payments of $112,500 were made for work that had not yet been completed. The final installment was made on April 1, 2010, and at October 2011, the work was still incomplete.

It is important to note that our observations and conclusions relate only to the management practices and actions of TPEI. Consequently, our comments and conclusions do not pertain to any practices that contractors followed or to their performance.

BACKGROUND

4.1 Tourism PEI (TPEI) is a Crown Corporation governed by a Board of Directors under the Ministry of Tourism and Culture. Tourism PEI works closely with industry groups including the Tourism Advisory Council (TAC) and the Tourism Industry Association of PEI (TIAPEI) to carry out its mandate.

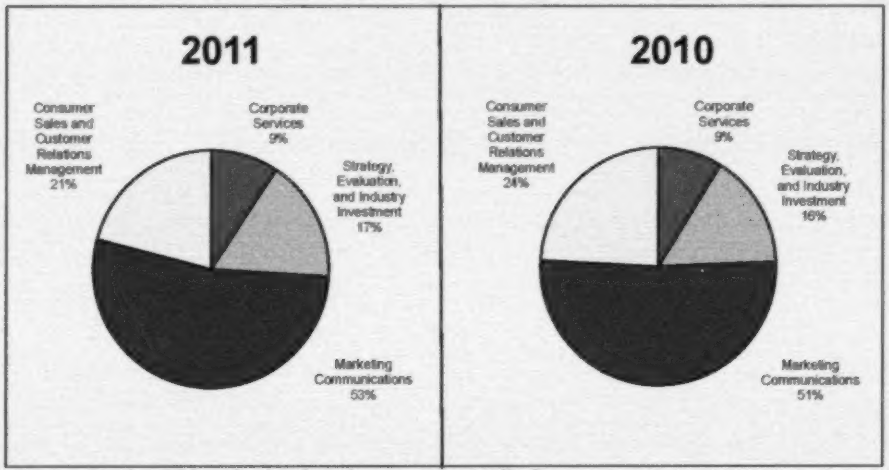
4.2 The Tourism PEI mandate is to work in partnership with industry to promote Prince Edward Island as a premier destination and to enhance the economic benefits of tourism through the development and promotion of existing and new quality products and services.

4.3 To meet its mandate, TPEI has four distinct divisions:

- Corporate Services;
- Strategy, Evaluation, and Industry Investment;
- Marketing Communications; and
- Consumer Sales and Customer Relations Management.

4.4 To help achieve its mandate, TPEI has spent $4 million and $4.4 million in the last two fiscal years engaging professional services. The breakdown of this spending between the four divisions is illustrated in **EXHIBIT 4.1.**

EXHIBIT 4.1
TOURISM PEI
PROFESSIONAL SERVICES SPENDING BY DIVISION
YEAR ENDED MARCH 31



Source: Tourism PEI professional services accounts (audited)

4.5 Tourism PEI is subject to a number of rules surrounding the procurement of professional services. It must follow Treasury Board (TB) policies, the *Financial Administration Act* (FAA), and the detailed procurement rules outlined in the Internal Trade and the Atlantic Procurement agreements, two inter-provincial trade agreements.

4.6 There are several TB policies that are relevant to professional services contract management: TB Policy 6.07 Delegation of Signing Authority and the various sections of TB Policy 13 Contract Services.

The delegation of signing authority emphasizes that proper authorization is essential to ensure that decisions within the organization are approved by the appropriate management levels and that documentation exists to support the recording of transactions and disbursements of funds. The TB policy on contract services is based on the following basic principles:

- the best quality product/service for the most economical cost;
- consistency, uniformity, and fairness in all facets of the acquisition and administration of contracted services;
- opportunity for private sector bidders to participate in government business; and
- reduction of unnecessary liability and financial risk to government which could result from contractual arrangements.

4.7 The TB contract services policies include topics such as employer/employee relationships, selection of contractors, approval processes, risk management, and contract management. The policies also outline the elements that should be included in a contract, including a standard template to assist users in developing contract wording.

4.8 In addition to TB policy, TPEI must adhere to the *Financial Administration Act* (FAA) which requires that invoices be certified for payment before funds are released. This process essentially has staff sign each invoice declaring that services were rendered and that the price charged was accurate.

4.9 Finally, TPEI must adhere to the detailed procurement rules of two interprovincial trade agreements: the Agreement on Internal Trade (AIT) and the Atlantic Procurement Agreement (APA). The objective of these agreements is to promote trade within Canada and the Atlantic Provinces.

OBJECTIVE AND SCOPE

4.10 The objective of our audit was to determine whether Tourism PEI carried out its contracting activities in compliance with applicable legislation, policy, and interprovincial trade agreements. More specifically, we were looking to see whether

- projects were awarded in accordance with Treasury Board policy, the Agreement on Internal Trade, and the Atlantic Procurement Agreement thus respecting access, competition, and fairness;
- contract terms complied with TB policy thus ensuring public interest is being protected; and
- contracts were monitored and payments made in accordance with TB policy and the *Financial Administration Act* ensuring services detailed in the contracts were received and payments for services were made in accordance with contract terms.

4.11 The requirements of the various TB policies, FAA, and interprovincial trade agreements are the standards against which we measured TPEI's performance with regards to contract management. Management reviewed and accepted the suitability of the criteria used in the audit.

4.12 Our audit scope covered Tourism PEI professional services contracts that were in effect during the fiscal years 2009-10 and 2010-11. For greater clarity, we did not look at contracts within the Department of Tourism and Culture, nor did we look at contracts for materials, goods, or other services.

4.13 We performed our audit in accordance with the standards for assurance engagements encompassing value-for-money audits established by the Canadian Institute of Chartered Accountants and accordingly included such tests and other procedures as we considered necessary in the circumstances.

OBSERVATIONS AND RECOMMENDATIONS

CONTRACT AWARDS

Competitive Process

4.14 Treasury Board policy requires some form of competitive bidding process depending on the circumstances surrounding the contractual arrangement. A competitive process helps government meet its objectives of obtaining the best quality service for the most economical cost and providing an opportunity for private sector bidders to participate in government business. The policy describes two main ways to undertake a competitive bidding process: by public invitation or by invitation to qualified bidders. It also allows for selection without competition in certain circumstances. When opting for the invitation to qualified bidders approach, TB policy is clear that a minimum of three quotes should be obtained.

4.15 We chose a sample of 31 professional services contractual arrangements that were in effect during fiscal years 2009-10 and 2010-11. Many of the contracts in our sample qualified for sole source award. Of the 31 contracts in our sample, only eight required a competitive process. We found that of those eight, TPEI undertook a competitive process in three instances, or 40 percent of the time. Contract values for the five contracts that were not opened to a competitive process ranged in value from $13,767 to $125,000. The $125,000 contract also exceeds the thresholds of the AIT and the APA which are $100,000 and $50,000 respectively. As such, this instance also contravenes these internal trade agreements.

Approval

4.16 Treasury Board policy outlines the framework for approval to enter into contractual arrangements. Treasury Board policy requires that all contracts and agreements in which the contract value exceeds $100,000 are to be approved by Treasury Board. Treasury Board policy defines contract value to be "the estimated maximum cost of all fees, allowances, remuneration and reimbursable expenses associated with a contract and/or an assignment, including travel and other expenses."

4.17 Treasury Board policy also requires approval by Treasury Board in the following circumstances:

- Contracts that are entered into by departments and reporting entities within their level of authority, but later in the process exceed the $100,000 threshold are to be submitted to Treasury Board for approval as soon as the excess is known.

- Contracts approved by Treasury Board, which departments and reporting entities wish to materially revise for any purpose, including contract price, content, or work to be performed, are required to be re-submitted to Treasury Board for approval.

4.18 Of the 31 contractual arrangements in our sample, nine required TB approval. Of those nine, only in three cases did TPEI seek TB approval as required.

4.19 For all contracts and agreements for which the contract value is $100,000 or less, TB policy requires they be approved by the Minister, Deputy Minister, or their delegate. We found that TPEI did have a documented and approved delegation of signing authority policy. The policy requires two members of senior management to sign any contract in excess of $25,000. The policy defines divisional directors and the Deputy Minister as senior management.

4.20 Of the 31 contractual arrangements in our sample, 21 had a contract value in excess of $25,000 and as such required the signature of two members of senior management per TPEI's delegation of signing authority policy. Of those 21, only three had the required two signatures.

Contract Administration

4.21 Treasury Board Policy 13.10 Contract Management and Reporting requires departments and reporting entities to establish administrative procedures to ensure efficient and effective contract management. It further requires that departments and reporting entities maintain summary information with respect to contracts and funding agreements with a contract value of $25,000 or greater. The policy clearly outlines the information and level of detail that should be maintained on these contracts.

4.22 We found that TPEI did not maintain the necessary information as required by TB Policy 13.10. TPEI does maintain an annual listing of professional services by vendor which agrees to their financial records; however, this list does not contain the required information such as

- the type of contract, of which there are eight to choose from;
- the effective dates of the contract;
- whether a signed contract is on file;
- the type of selection method;
- approval levels; and
- a brief note outlining the purpose.

Recommendations

4.23 Except where sole sourcing is warranted, Tourism PEI should use a competitive process in awarding professional services contracts.

4.24 Tourism PEI should seek Treasury Board approval to enter into contractual arrangements where required by Treasury Board policy.

4.25 Tourism PEI should follow its internal delegation of signing authority policy which requires two signatures from senior management on all contractual arrangements in excess of $25,000.

4.26 As required by Treasury Board Policy, Tourism PEI should maintain the required summary information on all contracts in excess of $25,000.

CONTRACT TERMS

4.27 Treasury Board policy outlines what is required to be included in a professional services contract. In the simplest of terms, the purpose of the contract is to outline, in writing, the terms of the arrangement: the work to be performed and the compensation to be paid. Treasury Board policy clearly states that all contractual arrangements are to be documented and that such contracts and agreements be legally enforceable. TB policy further outlines minimum clauses that are to be included in documented contracts. These clauses deal with general topics and include standard wording for

- contractor independence to assist in avoiding the creation of an employer/employee relationship;
- insurance requirements;
- indemnification and assumption of liability;
- freedom of information and protection of privacy;
- confidentiality and copyright; and
- termination.

4.28 In our sample of 31 contractual arrangements, we noted significant deficiencies in 17, or 55 percent. Of those 17 instances, 12 had nothing in writing. When terms are not documented, TPEI is exposing government to unnecessary risk. Further, none of the minimum clauses as described earlier are inherent in an undocumented contractual arrangement. Aside from one large advertising contact, the value of the undocumented contractual arrangements ranged from $10,000 to $92,000. The large advertising contract operated on a two year verbal extension of an expired contract.

4.29 Included in the remaining five contracts were two contractual arrangements with the same contracted party totaling $1.125 million over a period of four years. The contractual arrangement was a letter signed by the Deputy Minister outlining the contract value and referring to two separate documents as being the "terms and conditions" of the contractual arrangements. In one case, the document was a funding application and in the second, it was a business case. The vast majority of the minimum required standard TB clauses were not included in the terms and conditions of these long-term financial commitments.

4.30 Included in the remaining five contracts was one in which the terms were significantly outdated. The original contract was effective December 2002 and was renewed via letter a number of times including the most recent renewal extending the contract until March 31, 2012. Based on our review of correspondence between TPEI and the contracted party and discussions with TPEI management, we concluded that the terms were significantly outdated. Correspondence dating back to February 2008 outlines the need to amend the terms. Tourism PEI advised that discussions have been had and analyses have been made, but amendments have not been documented. The value of the contract was $50,000 per year; however, since April 1, 2008, the contract value increased to $110,000 per year.

4.31 Included in the remaining five contracts was one for IT services valued at $50,902 US + $5,000 CND. The terms and conditions did not outline the work that was actually required to be performed. The work was already underway while contract terms were being drafted. The contract was signed upon the completion of the work and dated the same day as the payment for services rendered.

4.32 The final instance of deficient contract terms was an MOU for a project that stemmed from a larger IT contract. The MOU detailed only the payment amount. It did not outline the work or the timelines. The MOU was for $80,000.

4.33 In a separate management letter provided to TPEI, we included other observations regarding deficiencies in the contracts reviewed. These deficiencies related primarily to administrative issues.

Recommendations

4.34 Tourism PEI should document all contractual arrangements and ensure minimum Treasury Board required clauses are used.

4.35 Tourism PEI should ensure that terms and conditions of the contractual arrangements are relevant and clear.

CONTRACT PAYMENTS

4.36 The *Financial Administration Act* (FAA) outlines important rules for controls over payments. In essence, the Act requires that the Minister, or a person authorized in writing by the Minister, certifies for payment that services were rendered and that the price charged was in accordance with contract terms.

4.37 As noted previously, TPEI does have a documented and approved delegation of signing authority policy. The policy allows directors to approve invoices for payment up to $25,000. Invoices for payments in excess of $25,000 must be approved by the Deputy Minister. We found no reportable issues with TPEI's signing authority levels for payments to vendors.

Certification of Services Rendered

4.38 For our sample items, we looked at the payments that were made to ascertain whether services were rendered prior to payment. Four of the contractual arrangements in our sample had a large volume of payments, and as such, we looked at a sample of payments. We examined at least 74 percent of payments to each vendor under those four contracts. For the remainder of the contracts in our sample, we examined all payments.

4.39 The FAA requires certification that work has been completed prior to paying an invoice. In our sample of 31 contractual arrangements, we noted 4, or 13 percent, where payments were made in advance, which contravenes the FAA. These advance payments ranged from $11,400 to $112,500. The most significant instances are detailed further in the following paragraphs.

4.40 In one instance, TPEI engaged a former employee for a six month contract. TPEI paid the consultant up front for a total cost of $47,492. Further, one of the deliverables was not performed and the contract value was not adjusted accordingly. TPEI engaged this consultant to, among other things, prepare a report on the status of one of its operations. The report was never written. TPEI management stated that during the course of the engagement, priorities had changed and this deliverable was no longer required.

4.41 In another instance, the contract terms outlined the detailed tasks to be performed and a detailed payment schedule. The payments were made in installments in accordance with the terms; however, $112,500 was paid in advance and the work had not been completed at the time of our audit.

4.42 In another instance, an IT service provider was paid $85,000 for a particular project that stemmed from a larger contract. This amount was paid in advance at the end of a fiscal year because the funds were available in the budget.

4.43 Advance payments expose government to unnecessary risk of financial loss if the contracted party does not deliver on its contracted obligations.

Certification of Contract Price

4.44 For those contracts where terms were documented in writing, we noted three instances where payments were not made in accordance with the contract terms. All three instances pertained to the same contract. In these instances, commission and bonus calculation amendments were made based on authorization from the Deputy Minister; however, the changes to these terms were never documented. The changes resulted in $29,253 more being paid to the contracted party.

4.45 Where contract terms were not documented, we could not ascertain whether payments were made in accordance with contract terms.

Recommendations

4.46 In accordance with the *Financial Administration Act*, Tourism PEI should not make advance payments on its contractual arrangements.

4.47 Tourism PEI should document any amendments to contract terms.

Other Payment Issues

4.48 In addition to the requirements of the FAA, we also looked to see whether there were internal controls over payments to ensure

- payments were for the amounts invoiced;
- invoices were mathematically accurate;
- payments were made to the appropriate party; and
- invoices provided sufficient detail for administration and management purposes.

4.49 For our sample contracts, we found that payments were for the amounts invoiced and the invoices were mathematically correct. We did note instances where payments were not made to the appropriate party and where invoices did not have sufficient detail.

4.50 Tourism PEI made payments pursuant to three separate contractual arrangements to conduct research studies. Payments totaling $84,000 were made to an individual instead of the contracted entity.

4.51 Of the 31 contractual arrangements we looked at, we found that invoices relating to four did not contain sufficient detail to support the request for payment. In one instance, an invoice for $13,767 did not reference the particular project.

4.52 In another two instances, payments were made to the same vendor under two different contractual arrangements. In each of these cases, the contracting party was seeking reimbursements for costs it incurred as part of the projects. Reimbursements were sought totaling $28,000 and $16,000 respectively; however, the contracted party did not attach documentation to substantiate the claims.

4.53 In the fourth instance, TPEI did not request detailed invoices from an IT service provider, even thought the contract terms required it. The contract's schedule of work outlined 31 specific tasks each with a "development" cost and, in some instances, annual "operational" costs. The development costs totalling $868,850 were to be paid out in three installments of $250,000, $309,425, and $309,425 over sixteen months. These payments were made in accordance with those terms; however, the invoices did not detail anything other than the words "development costs." There was no link to which of the contracted tasks the costs related to. Similarly, the invoices for the operational costs which amounted to $709,580 were paid out in monthly installments with no detail other than the month. Again, there was no link to which of the contracted tasks the costs related to. As previously reported, development costs of $112,500 were paid for work that was not completed at the time of our audit. The final installment for the development costs was made on April 1, 2010, and at October 2011, the work was still incomplete.

Recommendations

4.54 Tourism PEI should make payments only to the party named in the contractual arrangement.

4.55 Tourism PEI should have contracted parties provide sufficient details to support invoices.

MANAGEMENT RESPONSE

4.56 Our report was discussed with management and a written response will be provided.

5. HIGHWAY CONSTRUCTION

MAIN POINTS

What we examined

The primary highway network is an essential component of transportation infrastructure within the province. The *Roads Act* assigns responsibility for building, improving, and maintaining highways to the Minister of Transportation and Infrastructure Renewal.

We examined management practices for highway construction projects including access to related federal funding. We focused on construction carried out on the primary highway network during 2010-11.

Audit work for this report was substantially complete as of November 2011.

Why it's important

Roads make up a major portion of the province's capital assets. During 2009-10 and 2010-11, the Department of Transportation and Infrastructure Renewal (the Department) undertook a significant increase in highway construction due to the availability of federal funding under the federal Infrastructure Stimulus Program. In 2009-10 and 2010-11, expenditures for highway construction were $46.9 million and $44.6 million respectively.

What we found

- The Department has a well defined process for the management of highway construction projects. However, for the highway construction projects examined, we noted deficiencies in file documentation, approvals, and adherence to certain related legislation and policies.

- Various tests are carried out in the Materials Testing Lab. Test results were sometimes outside the parameters established in the specifications, and these test reports were not signed by lab management to indicate acceptance and approval.

- Project files did not include adequate documentation to support key decisions. Minutes of job meetings with contractors, supporting calculations for certain price adjustments, and documented approval for the waiving of prescribed penalties were not always on file.

- Inconsistencies were noted in the issuance of the Engineer's Certificate of Substantial Completion, and in some cases the calculation of holdbacks was not in compliance with the *Mechanics' Lien Act*.

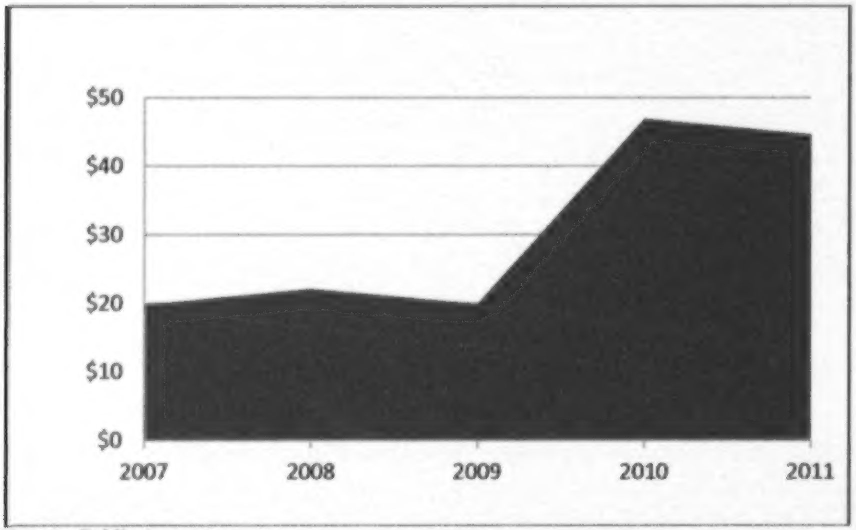
- Contracts were not documented for consultants engaged to carry out design and project management, and Treasury Board approval was not obtained as required under Treasury Board policy.

- For the highway construction projects examined, federal funds available under the Infrastructure Stimulus Fund and 2010-11 New Deals for Cities and Communities were fully accessed.

BACKGROUND

5.1 In 2009-10 and 2010-11, the province undertook an extensive investment in highway construction. **Exhibit 5.1** illustrates the increased investment in highways since 2006-07.

EXHIBIT 5.1
PROVINCE OF PEI
CAPITAL COSTS - ROADS
YEAR ENDED MARCH 31
(Millions)

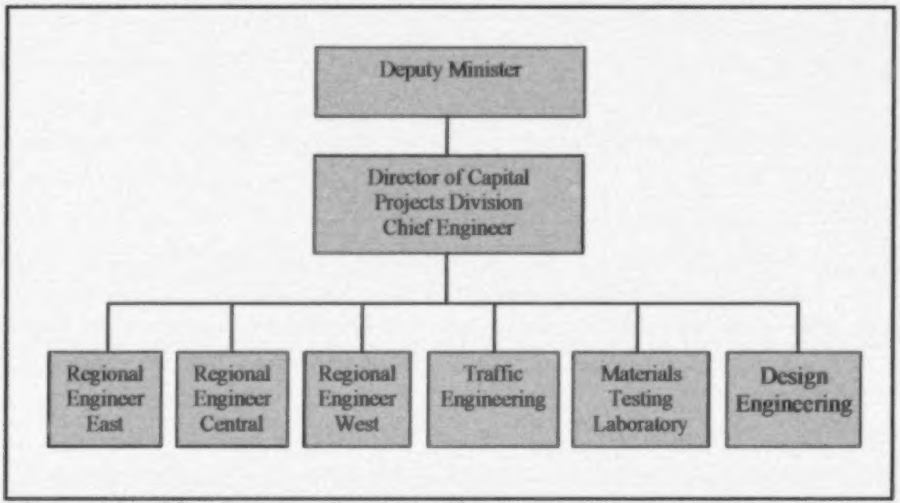


Source: Public Accounts

5.2 Under the *Roads Act*, the Minister of Transportation and Infrastructure Renewal is responsible for building, improving, and maintaining highways within the province. There are over 3800 kilometers of paved roads in Prince Edward Island. Approximately 1220 kilometers are designated as national highways or community connectors, are the roads which carry the highest volume of traffic, and are referred to in this report as the primary highway network.

5.3 **Exhibit 5.2** provides the organization chart for the Capital Projects Division and highlights the key engineering sections that are critical to highway construction.

EXHIBIT 5.2
DEPARTMENT OF TRANSPORTATION AND INFRASTRUCTURE RENEWAL CAPITAL PROJECTS DIVISION


Deputy Minister
Director of Capital Projects Division Chief Engineer
Regional Engineer East
Regional Engineer Central
Regional Engineer West
Traffic Engineering
Materials Testing Laboratory
Design Engineering

Source: Adapted from Department Organization Chart

5.4 The Capital Projects Division of the Department of Transportation and Infrastructure Renewal (the Department) is responsible for planning and managing highway construction projects carried out on the primary highway network. The regional engineers are responsible for project management from evaluation of the tenders, day-to-day management of the projects, monitoring of the construction in accordance with the specifications, and payments to contractors. A number of project managers report to the regional engineers. The Materials Testing Lab provides technical support, ensuring quality control and quality assurance testing of all materials incorporated into the highway construction project. In addition, the lab is responsible to test the pavement for compaction and smoothness. The Traffic Engineering Section provides technical support and information for highway construction planning and is responsible for installation and maintenance of traffic control devices and traffic operations for the province. When the construction projects are approved, detailed engineering design for each project is either contracted out or carried out in-house by the Design Engineering Section.

5.5 The Department has developed a detailed manual, the General Provisions and Contract Specifications for Highway Construction (the specifications). This manual sets out the requirements for construction including preparation of the road bed, construction process, materials quality, asphalt compaction, and environmental protection during construction. In addition to any distinct requirements of a particular construction project, the contracts awarded require construction in accordance with these specifications.

OBJECTIVE AND SCOPE

5.6 The objectives of this audit were to determine whether

- adequate management practices were in place over highway construction projects; and
- available federal funding was fully accessed for highway construction projects.

5.7 We examined management practices for road construction carried out during the 2010 construction period on national and collector highways. We examined the design and tendering process, project management practices, and payment processing. We assessed adherence to the General Provisions and Contract Specifications for Highway Construction with particular emphasis on practices in place at the Materials Testing Lab. We reviewed monitoring for adherence to environmental requirements. In addition, we examined project approval and submission of claims for federal funding.

5.8 Our audit included a review of various documents, legislation, regulations, and policy. We selected a sample of highway construction projects carried out in 2010-11. One project in our sample was an extension of a project that began in 2008-09, and therefore we examined the earlier project as well. In addition, we interviewed various departmental personnel. We also engaged an independent engineering consultant to carry out specific audit work at the Materials Testing Lab.

5.9 We performed our audit in accordance with the standards for assurance engagements encompassing value-for-money audits established by the Canadian Institute of Chartered Accountants and accordingly included such tests and other procedures as we considered necessary in the circumstances.

OBSERVATIONS AND RECOMMENDATIONS

HIGHWAY CONSTRUCTION PROJECTS EXAMINED

5.10 We carried out a detailed examination on five highway construction projects. **Exhibit 5.3** provides information on these projects.

EXHIBIT 5.3
SELECTED HIGHWAY CONSTRUCTION PROJECTS COSTS AND VARIANCES
($000)

Project	Budget at Date of Tender Approval	Actual Costs as of Nov 30, 2011*	Budget Variance	Percent Change
Project 1	$6,184	$6,283	$99	2%
Project 2	$4,304	$4,691	$387	9%
Project 3	$1,752	$1,848	$96	5%
Project 4	$6,101	$6,865	$764	13%
Project 5	$3,384	$3,702	$318	9%

*Some costs may be incurred after November 30, 2011, to finalize completed projects.

DESIGN AND TENDERING

Project Design

5.11 Construction project design is either carried out in-house or contracted to engineering firms. Detailed design drawings should be prepared by an engineer for each construction project. For each of the projects in our sample, detailed design drawings were prepared by either a professional engineering firm or the Department's engineering staff.

5.12 Due to the increased number of highway construction projects in the 2009 and 2010 construction seasons, design for the majority of projects was contracted out. Management should follow the Treasury Board requirements for contracting when acquiring services from engineering firms. Treasury Board policy requires contract services exceeding $100,000 be approved by Treasury Board. Although this policy does not apply to construction contracts, it is applicable to consulting contracts. In addition, the Treasury Board policy on contract services requires contracts to be documented and sets out key sections that all contracts are expected to address. These are basic considerations and include

- identification of the parties to the contract;
- description of the work;
- amount and method of payment;
- confidentiality requirements;
- indemnification; and
- proof of insurance.

5.13 For three projects in our sample, engineering services were contracted out, but the Department did not have a documented contract outlining the terms of the engagement with the engineering firm. One of these instances was for project design, and the other two were for project management of the construction. In addition, in two of these instances, the amount paid for the services exceeded $100,000 and approval of Treasury Board was not obtained as required.

Recommendations

5.14 The Department of Transportation and Infrastructure Renewal should document contractual arrangements and ensure minimum Treasury Board required clauses are used.

5.15 In accordance with Treasury Board policy, the Department of Transportation and Infrastructure Renewal should ensure engineering services contracts exceeding $100,000 are approved by Treasury Board.

Tendering

5.16 After the construction project has been designed and approved for construction, the project is tendered. The tender document sets out the details of the project including the work required and estimated materials to complete the construction. The key consideration in the awarding of the tender is price. For the construction projects tested, the contracts were tendered or bids were invited, and all the contracts were awarded to the lowest bidder.

5.17 The contractor who wins the bid is required to provide performance security in accordance with the specifications. If the contractor provides performance security by way of a certified cheque or a letter of credit the amount is normally 10 percent of the contract value. If the performance security is bond security, the amount must be 50 percent of the contract value plus 25 percent of the labour and materials.

Performance security provides some financial protection to the Department if the contractor fails to perform the contract.

5.18 Management should obtain performance security as required by the specifications and the tender agreement. We reviewed the performance security provided for all projects in our sample. For three of the sample projects, the Department could not provide evidence that the performance security was obtained as required.

Recommendation

5.19 In accordance with the General Provisions and Contract Specifications for Highway Construction, the Department of Transportation and Infrastructure Renewal should obtain performance security for construction contracts.

PROJECT MANAGEMENT

5.20 Under the terms and conditions of the construction contract, the contractor agrees to carry out the construction in accordance with the specifications. The regional engineer is responsible for monitoring the project and ensuring that it is completed in the agreed timeframe; it is completed in accordance with the design, the terms and conditions of the contract, and the specifications; and it is completed within the approved contract amount. Where there are reasons to vary from the specifications, documentation should be on file to indicate the impact of the change as well as approval by the regional engineer or the chief engineer depending on the significance and impact of the item.

Construction Monitoring

5.21 We looked for documentation of job meetings where key decisions related to the project are made. This would occur, at a minimum, at the beginning of the construction project when the contractor and department representatives meet on site to review the expectations for the job including the environmental considerations. Documentation of discussions would also be expected when construction is complete and the Department and contractor meet to determine final quantities. In large construction projects, it is not unusual for unforeseen issues to arise as the job progresses, and we also expected decisions arising from these issues to be documented. We noted meetings with contractors are not regularly documented. Of the five projects we examined, three did not have any documented job meetings. One project had two meetings documented and these minutes were not signed. The other project had one meeting with documented minutes which were signed.

5.22 We were advised that significant decisions that impact the project are made in consultation with the chief engineer, but these decisions are often not documented. Our examination of the project files confirmed this lack of documentation. In one project, for example, a decision was made to change the elevation of the road and fill in a hollow. This increased the costs and duration of the project as a substantial amount of fill was needed. Although additional materials were reflected through the approval of change orders, there was no documentation in the project file to indicate the nature, expected cost, and approval by the chief engineer for this major change.

5.23 Highway construction projects are significant investments of the province. Changes which impact both the Department and the contractor often arise as the construction progresses. In order to avoid misunderstanding and to provide support in the event of disputes or litigation, management should document key decisions and discussions with contractors.

Recommendation

5.24 The Department of Transportation and Infrastructure Renewal should ensure key decisions and discussions are documented for highway construction projects including

- **minutes of job meetings; and**
- **approval of the chief engineer for significant project revisions.**

Scheduling and Contract Changes

5.25 The specifications require the contractor to submit a construction schedule within seven days of being awarded the tender. We looked for a schedule to be on file, approved by the regional engineer, and updated for approved schedule changes. The specifications allow liquidated damages to be charged if the contractor is at fault for failing to comply with the schedule.

5.26 For our sample projects, we found that schedules were on file for each project but they were not signed by the regional engineer. The Department may have difficulty imposing liquidated damages where the construction schedule does not have documented approval.

5.27 Large construction projects typically involve numerous change orders. We examined all change orders for each construction project in our sample and traced the bid prices and quantities to the contract. The bid prices and original quantities on all change orders agreed to the contract, and all change orders were signed.

5.28 The specifications allow for certain price adjustments and penalties or bonuses which are applied through a change order to the contract. We recalculated adjustments allowed under the specifications. We noted that in general there was inadequate documentation and approval on file to support the calculation of specific adjustments and waiving of penalties. Following are examples of instances noted:

- There was one liquid asphalt price adjustment where the amount was not calculated in accordance with the specifications. When we followed up we obtained information to calculate the change, but there was no documented approval on file for the adjusted rate.

- For three of the five projects in our sample, the penalties arising from the profilograph test for smoothness of the pavement as required by the specifications were waived, and documentation was not on file to support the reasons for waiving the penalties or approval by the chief engineer.

- For one of the projects in our sample, the construction schedule was exceeded by 92 days, but there was no documentation on file to support the waiving of liquidated damages. We were advised that delays were due to factors outside the contractor's control including project changes approved by the Department. However, there was no documentation to indicate what factors were considered and that the waiving of the penalty was approved.

Recommendations

5.29 The regional engineer should document approval of the construction schedule provided by the contractor.

5.30 Where contractors receive price adjustments allowed under the specifications, the regional engineer should ensure calculation of these adjustments is supported with documentation in the construction project file.

5.31 Where penalties established under the specifications are waived, the reasons and approval of the chief engineer should be documented.

Payments

5.32 For each construction project, there are progress and final payments issued to the contractor as well as various other payments charged to the project. For each project in our sample, we examined all progress payments and checked that the price in the contract was the price paid and the payment was appropriately authorized. We also selected a sample of other payments for proper approval and verified that they were charged to the correct project. We noted instances where payments were processed when the person authorizing the payment did not have sufficient signing authority.

Recommendation

5.33 The Department of Transportation and Infrastructure Renewal should ensure payments related to highway construction projects are authorized by personnel with appropriate signing authority.

Holdbacks

5.34 The regional engineer is responsible to ensure that the project is constructed in accordance with the terms of the contract and the specifications. When a project is essentially complete, a certificate of substantial completion is to be issued, signed by the engineer, stating that the work has been completed to the engineer's satisfaction and setting out the date of the warranty period. The engineer is certifying that the construction has been carried out in accordance with the specifications.

5.35 Under the *Mechanics' Lien Act* the Department, as owner, is required to deduct 15 percent of the amount of the work done and the materials furnished and retain that amount for a period of 60 days after completion or abandonment of the contract. The date of substantial completion noted in the certificate is the date used to establish the release of the holdback. Where construction extends over two years, the *Mechanics' Lien Act* allows the engineer to release the holdback for the work completed in the first year but is required to retain a holdback again as payments are made for work completed in the following year. For the projects in our sample, we tested the calculation of the holdbacks and that the requirements for release were followed.

5.36 We had several issues with the engineer's certificates of substantial completion and the related release of mechanics' lien holdbacks. In one project, the required holdback of approximately $800,000 was released in 33 days instead of the required 60 days after substantial completion of the project. In another project, two engineer's certificates of substantial completion were signed by the project manager who is not an engineer. In another project, we were advised the engineer's certificate of substantial completion was issued but a signed copy was not retained and could not be provided.

5.37 In addition, two of the projects in our sample extended from one construction season to another. For one of these projects, totalling $6.3 million, two engineer's certificates of substantial completion were issued, one at the end of construction in year one and one at the end of construction in year two. The certificate released at the end of year one did not reflect that it pertained to year one of a multi-year contract but stated that the contract was complete and the warranty period was to start. The second certificate then stated the contract was complete in the second year and the warranty period was to start as of that date. By having two certificates with two different warranty dates, the Department could be at risk if it had to enforce the warranty. In the second project, totalling $3.7 million, that extended over two construction seasons, the holdback was released but there was no certificate of substantial completion issued to the contractor as required under the *Mechanics' Lien Act*.

5.38 For both of these multiyear projects, we also noted that the holdback retained in the second year of the contract was not calculated in accordance with the *Mechanics' Lien Act*. The Act requires 15 percent of the work completed for that year be withheld from payments made to the contractor. Instead, the Department withheld an amount from each payment based on 15 percent of the estimated amount to complete the project. In one project, for example, the amount withheld by the province was $255,000 less than the amount calculated in accordance with the Act.

Recommendations

5.39 The Department of Transportation and Infrastructure Renewal should ensure a certificate of substantial completion is issued for each highway construction project in accordance with the *Mechanics' Lien Act.*

5.40 The Department of Transportation and Infrastructure Renewal should ensure holdbacks are calculated and retained in accordance with the requirements of the *Mechanics' Lien Act.*

5.41 When a highway construction project extends from one year to another, the engineer's certificate of substantial completion issued after year one should indicate it relates to completion of the work scheduled for year one of the contract.

MATERIALS TESTING LABORATORY

5.42 The Materials Testing Lab is responsible to provide quality control and quality assurance for all materials used in road construction. The main lab is located in Mount Stewart with a smaller lab in Summerside.

5.43 We expected laboratory management to have quality control processes to ensure laboratory test results are reliable. Based on our work, the Materials Testing Lab has controls in place over the main processes required to ensure reliability of test results.

5.44 However, we have noted areas where improvements can be made. The more significant issues are included in this report and other observations were reported separately to management.

Laboratory Testing

Asphalt Mix Design Testing

5.45 The construction projects in our sample were subject to method specification testing. Under this process, the lab is required to test the properties and characteristics of all materials used by the contractor to produce hot mix asphalt. Based on these materials, the lab designs an asphalt mix formula.

5.46 The specifications set out physical and gradation requirements for both coarse aggregates and fine aggregates which are included in the asphalt mix. It is possible that certain parameters for one material may vary from the specifications but can be counteracted by different parameters for another material. However, when tests indicate that specifications have not been met, the lab manager should sign the test sheets to indicate that he is aware of the results and has approved them as acceptable.

5.47 We noted that fine and coarse aggregates to be used in the asphalt mix were tested. However, there were numerous instances where the results fell outside the allowable parameters, and there was no documented approval by lab management that these test results were acceptable.

5.48 We were advised that before the formula for an asphalt mix is developed, the lab supervisors are to verify all the test results for the asphalt mix components. The asphalt mix formula is then developed and approved. We noted that test reports were not signed by lab management to confirm that mix design formulas were verified and approved.

5.49 A key component in the asphalt mix is the asphalt cement. The specifications require documentation on the source and current test results of the asphalt cement that is used in the construction. The asphalt cement is not available from within the province, and is obtained from the other Maritime provinces. We were advised that labs in these provinces carry out the tests on the asphalt cement. However, this information is not included with the mix formula. In addition, we noted that the quantity and type of anti-stripping agent used is not specified on any of the formulas as required by the specifications. This information is important in the event it is necessary to trace back to products used in the mix.

Recommendations

5.50 Where test results vary from specifications but are deemed acceptable, management of the Materials Testing Lab should document approval on the test sheets.

5.51 Management of the Materials Testing Lab should sign the test reports for the asphalt mix design to indicate verification and approval.

5.52 Management of the Materials Testing Lab should ensure asphalt mix design formulas include all the information required by the specifications including

- **the type and source of asphalt cement;**
- **the name and contact information of the lab performing the tests on the asphalt cement; and**
- **the quantity and type of anti-stripping agent used in the mix.**

Asphalt Mix Field Testing

5.53 Asphalt applied to the road should meet the specifications. If aggregate sources change or unsatisfactory results are noted during production, a new asphalt mix formula is required. We expected lab management to monitor and report on test results to determine if revisions to the asphalt mix are necessary.

5.54 During asphalt production, field tests are carried out and the results are compared to the characteristics of the asphalt mix as designed. We were advised that test results are verbally provided to the project manager and regional engineer by lab management and decisions are made on adjustments required to the asphalt being produced. We noted a number of tests in our sample where the field test results were outside the parameters established as acceptable in the specifications. There may be reasons why certain variations are acceptable, however there was no documented evidence that lab management was aware the results varied from the specifications and informed the regional engineer.

Recommendation

5.55 Field test results on asphalt production that are outside the limits established in the specifications should be signed by lab management and provided to the regional engineer.

Compaction and Profilograph Testing

5.56 After the asphalt is laid on the road, the Materials Testing Lab tests the compaction on the previous day's application. The specifications set out a target minimum compaction of 91.6 percent based on the maximum theoretical relative density. Below this compaction, contractors are subject to a price penalty. If the compaction is below 89.5 percent, the test is to be rejected. We found that this target minimum compaction of 91.6 percent is low compared to other provinces. In several other provinces, the target minimum compaction ranges from 92.5 percent to 93.0 percent. The extent of compaction can affect the durability of the asphalt. For our sample projects, we examined all asphalt compaction tests to determine if they met the specifications. For the 2010 construction period, one project in our sample had a rejected compaction test and several had penalties imposed. If the more stringent compaction specifications were implemented, the construction projects in our sample would have been subject to additional penalties as a result of compaction testing.

5.57 When the construction project is complete, the lab also tests the smoothness of the pavement using a profilograph. The specifications set out a table of penalties and bonuses based on the results of the profilograph tests.

5.58 The results of compaction tests and profilograph tests affect the amount paid to the contractors. We were advised that all tests are verified by the lab supervisors before results are sent to the project manager. For our sample projects, test results were provided to the project manager on a timely basis. We noted however, there is no signature or initials of the lab supervisors on the test result sheets to indicate that the test results were verified.

Recommendations

5.59 The Department of Transportation and Infrastructure Renewal should evaluate the impact of increasing the specification for target minimum asphalt compaction.

5.60 Compaction and profilograph test results provided to the project manager and regional engineer should be signed to indicate they were verified by a lab supervisor.

Laboratory Administration

5.61 Lab personnel include the lab technicians who are responsible for the collection and testing of samples as well as the asphalt plant inspectors who monitor and test the production of asphalt at the contractors' asphalt plants.

5.62 We expected regular internal reviews to be carried out on personnel to ensure that lab test procedures are followed correctly. Lab personnel are supervised; however, there is no periodic verification of their work to ensure that a lab test is conducted correctly from beginning to end. Such internal reviews would help identify needs for training, clarify testing procedures, and provide assurance that tests are carried out in accordance with the latest edition of the testing standards.

Recommendation

5.63 Management of the Materials Testing Lab should conduct and document periodic internal reviews of the work completed by lab personnel.

ENVIRONMENTAL MANAGEMENT

5.64 The specifications include requirements for environmental protection during construction and refer to the Department's Environmental Protection Plan. The Land and Environment Division has the responsibility to provide environmental management and regulatory compliance services for the Department. Environmental officers are responsible to conduct ongoing monitoring of construction activities carried out by Department staff and contractors.

5.65 During the capital planning process liaison occurs between the Capital Projects Division and the Land and Environment Division to consider specific environmental concerns around each construction project and to ensure that appropriate permits are obtained in advance of construction. As the construction progresses, the environmental officers monitor adherence to environmental specifications. The Environmental Management Section has the authority, under the specifications, where there is an immediate threat to the environment to order the contractor to remedy the situation or to stop work on the project.

5.66 There are various types of permits required for construction work depending on the nature of the work and the risk of damage to the environment. Additional environmental conditions may be attached to these permits depending on the circumstances. For the construction projects in our sample, the required permits identified by Land and Environment Division were obtained prior to construction.

5.67 Environmental officers should monitor the work of the contractor to ensure, in coordination with the project manager, that environmental specifications and any special conditions attached to the environmental permits are being followed.

5.68 It is standard practice to hold a job meeting at the outset of the construction project including contractor representatives, the Department's project manager, and the environmental officer. One objective of that meeting is to review any environmental considerations as well as the environmental permits and any attached conditions. We reviewed documentation maintained in the construction files and obtained all field notes from all environmental officers for the projects in our sample. We found minutes of job meetings were recorded in only two of the five projects in our sample. Further, the minutes did not document any discussion of environmental risks.

5.69 For one project in our sample, authorization to proceed from Fisheries and Oceans Canada was conditional on the Department providing a Fish Habitat Compensation Plan and following through with compensation in the form of restored fish habitat. The intent was that the compensation would be completed within one year of completion of the construction project. At the date of our fieldwork, the one year timeframe had passed and no plan had been developed or work performed to address this requirement.

5.70 During construction, environmental officers conduct inspections to determine whether environmental specifications and any additional conditions are being adhered to. We were advised that the frequency of the inspections depends on the level of risk associated with the project and the stage of the construction. There is currently no policy on the frequency of inspections and the information to be recorded. For the projects in our sample, the number of inspections ranged from one project with no record of an inspection to another project with 52 inspections.

Recommendations

5.71 The Department of Transportation and Infrastructure Renewal should ensure job meetings on highway construction projects include acknowledgement of environmental risks related to the project.

5.72 The Department of Transportation and Infrastructure Renewal should adhere to environmental conditions imposed under special environmental permits.

5.73 The Department of Transportation and Infrastructure Renewal should develop a policy on the frequency and documentation required for inspections carried out by environmental field officers.

FEDERAL FUNDING

5.74 Highway construction makes up a significant portion of the province's overall capital investment. We were advised federal funding sources are accessed wherever possible. We expected highway construction projects to be approved for funding prior to construction. In addition, we expected the projects to be recorded as a priority before the federal funding became available. We traced the projects in our sample to the prior years' capital plans and noted that all projects that received federal funding were approved for funding prior to construction and were supported with a valid purpose; for example, to improve traffic capacity or repair pavement deterioration.

5.75 Under the Infrastructure Stimulus Program, the province is responsible for submitting claims to the federal government for reimbursement of eligible expenditures. For the projects in our sample, we noted that all available federal funding under the Program was claimed on a timely basis. We also noted accounting control issues which were brought to management's attention.

MANAGEMENT RESPONSE

5.76 Our report was discussed with management of the Department of Transportation and Infrastructure Renewal. A written response will be provided to our Office.

6. GRANTS AND LOANS - OFFICE OF ENERGY EFFICIENCY

MAIN POINTS

What we examined

The Office of Energy Efficiency (OEE) was established in 2007 to assist residents of PEI to make their homes and businesses more energy efficient. We assessed whether the Office of Energy Efficiency has adequate management controls for the delivery of its grant and loan programs.

Audit work for this report was substantially complete as of September 2011.

Why it's important

Government grant and loan programs use public monies. It is important these programs are managed to ensure these funds are used as they were intended. The Office of Energy Efficiency was established to promote the benefits of energy efficiency to all Islanders and to provide programs to help Islanders reduce their energy consumption.

In 2010-11, the Office of Energy Efficiency issued over $1 million in energy efficiency grants to residents and businesses, and loans of $1.6 million were issued to Island residents.

What we found

- We could not conclude on whether all loans and grants issued met income eligibility requirements because documentation on income was not retained. Income level is a primary eligibility requirement for many of the grant and loan programs.

- With the exception of the lack of documentation to support eligibility, we noted the loans and grants were issued for eligible upgrades and in amounts consistent with program guidelines.

- The Office of Energy Efficiency has an arrangement with the PEI Lending Agency to disburse loans as well as collect and report on loans outstanding. However, there is no documented agreement which clearly outlines the responsibilities of each party. In addition, management of the Office of Energy Efficiency does not provide documented approval on loan applications prior to sending these documents to the PEI Lending Agency for loan disbursement.

BACKGROUND

6.1 The Office of Energy Efficiency (OEE) was established by government in August 2007. At the time of our audit, the OEE was part of the Energy and Minerals Division of the Department of Environment, Energy and Forestry. It was transferred to the Ministry of Finance, Energy and Municipal Affairs in November 2011. Its mandate is to "provide Islanders with advice and programs that will promote sustainable energy use and reinforce the importance of sound energy management for the economic, social, and environmental well-being of Island residents and businesses."

6.2 When it was first established, the OEE offered only residential programs. In August 2009, the OEE introduced two new programs aimed at assisting owners of commercial and institutional buildings (CSIPEI) as well as multi-unit residential buildings (MURBs) with energy efficiency projects. **Appendix I** at the end of this chapter provides a listing and brief description of the grant and loan programs offered by the OEE at the time of our audit.

6.3 The PEI Lending Agency (PEILA) is the primary partner of the OEE in its delivery of the energy efficiency loan programs. After the loan is approved by the OEE, the loan is managed through the PEILA for an annual management fee. The PEILA is responsible for all loan collections and invoices the OEE annually for loan defaults. The defaulted loans become an expense of the OEE in the year the defaults occur.

6.4 The expenditure budget of the Department of Environment, Energy and Forestry for the 2010-11 fiscal year was $22.5 million. The Energy and Minerals Division, the smallest division in the Department, had a 2010-11 expenditure budget of just over $2.1 million. The OEE accounted for $1.8 million of this budget with $1.5 million allocated specifically for grants.

6.5 In 2010-11, the OEE also issued loans to PEI residents for energy efficiency upgrades. A total of 285 loans were issued under the low income program totalling $1.4 million, and 35 loans were issued under the regular income program totalling $210,000. **Exhibit 6.1** provides a breakdown of grants and loans issued in 2010-11.

EXHIBIT 6.1
OFFICE OF ENERGY EFFICIENCY GRANTS AND LOANS ISSUED YEAR ENDED MARCH 31, 2011

Program Name	Amount	Percent of Total
Grants		
PEI Energy Efficiency Program	$ 566,000	49
Forgivable Loans Program	199,000	17
Window/Doors/Boilers Grant Program	106,000	9
Home Energy Low Income Program	97,000	8
ecoEnergy Program	82,000	7
Commercial Audit Assistance Program	36,000	3
MURB Grant Program	33,000	3
CSIPEI Grant Program	26,000	2
MURB Audit Assistance Program	18,000	2
Totals Grants	**$1,163,000**	**100%**
Loans		
PEI Energy Efficiency Low Income Loans	$1,405,000	87
PEI Energy Efficiency Loans	210,000	13
Total Loans	**$1,615,000**	**100%**

Source: Office of Energy Efficiency

OBJECTIVE AND SCOPE

6.6 In accordance with Section 13 of the *Audit Act,* we conducted an audit of the Office of Energy Efficiency. The objective of our audit was to determine whether the Office of Energy Efficiency (OEE) has adequate management controls for the delivery of its energy efficiency grant and loan programs.

6.7 Our audit included the grant and loan programs offered by the OEE as outlined in **Appendix I**. Management reviewed and accepted the suitability of the criteria used in this audit.

6.8 Our audit work involved conducting interviews with management and staff of the OEE. We reviewed various policy and guideline documents and consultant reports regarding the energy efficiency programs and services. As well, we selected random samples from the loan and grant programs for the period April 1, 2010, to March 31, 2011. We performed audit testing on these samples to determine if the grants and loans were evaluated and issued in compliance with the applicable OEE policy and guidelines.

6.9 The ecoEnergy Retrofit Program was excluded from the scope of the audit. This program offered funding to owners of single and multi unit residential buildings in the form of grants for an energy audit and ended April 8, 2010. We also did not audit the loan management procedures in place at the PEI Lending Agency for the Office of Energy Efficiency loan programs.

6.10 We performed our audit in accordance with the standards for assurance engagements encompassing value-for-money audits established by the Canadian Institute of Chartered Accountants, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

OBSERVATIONS AND RECOMMENDATIONS

GRANTS AND LOANS

6.11 Each grant and loan program offered by the Office of Energy Efficiency to residential, multi-residential, and commercial building owners for eligible energy efficiency upgrades has its own set of policies and guidelines. Management should adhere to these policies and guidelines when providing grants and loans to applicants.

Application Assessment

6.12 Grant and loan applications should be assessed and issued in accordance with the program criteria and guidelines. Overall, we found the applications were appropriately assessed, and loans and grants were issued to applicants in amounts consistent with program criteria and guidelines. However, there were issues identified in two main areas: income documentation and credit assessment.

6.13 The grant and loan programs available for low income families require that the applicant's household has an annual income of $35,000 or less. We cannot conclude on whether applicants were eligible for these programs because the OEE did not retain income documentation for the applicants.

6.14 We noted that application forms for the PEI Energy Efficiency Loan Program (applicant income higher than $35,000) provide permission to the OEE to review applicants' credit reports. With the exception of checking government's central default registry, no other credit assessment is completed by the OEE prior to the applicant receiving a loan. Credit assessments decrease the risk of future loan defaults.

Approvals

6.15 Management approval of grants and loans awarded should be documented. We noted that management approval was documented for the grant program files examined. However, for the loan program files examined management approval was not documented for any loans awarded.

6.16 The manager confirmed that formal documented approval has not been provided to PEI Lending Agency prior to loans being issued. Lack of management approval increases the risk of error or fraud occurring.

Documentation

6.17 Management should retain sufficient documentation in the grant and loan files to substantiate that the grants and loans awarded to applicants were for an eligible upgrade, and the eligible upgrade was completed.

6.18 Deficiencies were noted with file documentation during the period April 8, 2010, to the end of June 2010. Prior to April 8, 2010, residential and business owners applying for a grant or loan were required to have an energy audit, and assistance was available for the audit through the ecoEnergy Retrofit Program. At the time of our audit, all single and multi-unit residential applicants were no longer required to have an energy audit because the ecoEnergy Retrofit Program ended.

6.19 After April 8, 2010, applicants could apply for a grant after the eligible upgrade was completed with evidence of an invoice, whereas loan applicants required only a quote of the work proposed. Approval was not always provided prior to work commencing, and pre and post-inspections were not conducted.

6.20 The Office of Energy Efficiency tightened controls over the program, and as of July 2010 residential applicants were required to have a pre-inspection completed by the OEE prior to beginning the upgrades to verify that the work being proposed qualified for the program. A post-inspection by the OEE must also be completed to ensure the work was done prior to the residential home owner receiving the energy efficiency grant or loan proceeds.

6.21 In our audit testing of loans for the period beginning July 2010, we noted instances where quotes were still being accepted as evidence of the applicants' eligible upgrade costs. Since the upgrade must be completed prior to the loan being issued, an invoice should be obtained for the work performed.

Recommendations

6.22 The Office of Energy Efficiency should retain the income documentation of applicants where this information is applicable to program eligibility.

6.23 The Office of Energy Efficiency should perform credit assessments on regular income applicants of the PEI Energy Efficiency Loan Program.

6.24 The Manager of the Office of Energy Efficiency should provide documented approval on all loan applications prior to the loans being issued by the PEI Lending Agency.

6.25 The Office of Energy Efficiency should obtain invoices for eligible upgrades completed by applicants of the PEI Energy Efficiency Loan Programs.

LOAN COLLECTIONS

6.26 The Office of Energy Efficiency should have processes in place to manage and collect energy efficiency loans issued. Loans are assessed at the OEE and are disbursed, monitored, and collected through the PEILA for a set management fee. On an annual basis, the PEILA bills the OEE for defaulted loans.

6.27 We noted there is no formalized arrangement between the OEE and PEILA to outline the roles and responsibilities of each party for the PEI Energy Efficiency loan programs. An agreement would provide a clear understanding between both parties on responsibility for collection procedures to be conducted as well as any follow-up action deemed necessary on defaulted loans.

6.28 At the time of our audit, we noted that the Office of Energy Efficiency did not take any further action on defaulted loans. Since the OEE was established, the default rate on the energy efficiency loans has been approximately 4.2 percent. Defaults over the three years ended March 31, 2011 totalled $345,000. The more defaults increase, the less budget the OEE has to provide grants to Island residents and business owners.

Recommendation

6.29 The Office of Energy Efficiency should formalize its arrangement with the PEI Lending Agency for disbursing, monitoring, and collecting PEI energy efficiency loans.

MONITORING AND EVALUATION

6.30 Good management practices for any program require regular monitoring, evaluating, and reporting on program performance against pre-set and clearly defined goals and objectives. The Office of Energy Efficiency should have clearly defined goals and objectives as well as management processes to evaluate and report on the effectiveness of the energy efficiency loan and grant programs.

6.31 We found that the OEE does have a clearly defined mandate, goals and objectives. The OEE's goals are clearly defined in its mission statement "to provide Islanders with advice and programs that will promote sustainable energy use and reinforce the importance of sound energy management for the economic, social and environmental well being of Island residents and businesses."

6.32 At the time of our audit, the OEE had received a report from an external consultant hired to evaluate its residential energy efficiency loan and grant programs to March 31, 2010. There was no evaluation of the CSIPEI and MURB programs; however, these programs were introduced in the fall of 2009, later than the residential programs. Management indicated to us that a review of these programs is scheduled for the 2011-12 fiscal year.

6.33 The OEE has not reported regularly on the effectiveness of the loan and grant programs offered. When the OEE was established, it was required to provide an annual update to Treasury Board on the status of its various programs. A report was submitted to Treasury Board for the March 31, 2009, fiscal year. Management confirmed to us that this was the only update provided as of the date of our audit, and the review performed on the residential program performed by the external consultant had not been shared outside of the Department.

Recommendation

6.34 The Office of Energy Efficiency should regularly report to Treasury Board on the effectiveness of the energy efficiency loan and grant programs.

MANAGEMENT RESPONSE

6.35 Our report was discussed with management of the Office of Energy Efficiency and the Department. A written response will be provided.

APPENDIX I: GRANT AND LOAN PROGRAMS AS OF MARCH 31, 2011

RESIDENTIAL	
PROGRAM NAME	**DESCRIPTION**
PEI Energy Efficiency Grant Program	This program provides a direct subsidy to homeowners for the implementation of eligible upgrades aimed at making the home more energy efficient, excluding window and door replacements. The grant provided to the residential homeowner is equal to 15 percent of the total amount paid for upgrades to a maximum of $1,500 per household.
PEI Energy Efficiency Windows and Doors Grant Program	This program provides a direct subsidy for the installation of energy efficient windows and doors. The maximum amount of this grant is $500.
Financial Assistance for High Efficiency Oil-Fired Heating Systems	This program provides an additional $300 to applicants installing high efficiency oil fired heating systems.
Home Energy Low-Income Program (HELP)	This program provides low income applicants (family income $35,000 or less) a HELP tradesperson to provide complete comprehensive air sealing (caulking and weather stripping on doors and windows). The applicant also receives the installation of a programmable thermostat, a low flow shower head, and a voucher for a free furnace cleaning.
PEI Energy Efficiency Loan Program for Low- Income Households	This program provides financing to low income applicants (family income $35,000 or less) for eligible energy efficiency upgrades, excluding windows and doors. Applicants are eligible to receive financing up to a maximum of $10,000 at zero percent interest.
PEI Energy Efficiency Loan Relief Program for Low-Income Households	This program provides loan relief to recipients of the above loan program. A forgivable loan amount equal to 25 percent or 50 percent of the original loan is applied to the outstanding loan based on the household income of the loan recipient. (A household income of $15,000 and less receives a 50 percent forgivable portion and $15,001 to $35,000 receives a 25 percent forgivable portion.)
PEI Energy Efficiency Loan Program	This program provides financing to applicants who do not qualify for the PEI Energy Efficiency Program for Low-Income Households but still want to access financing for the implementation of eligible energy efficiency upgrades, excluding windows and doors. Applicants are eligible to receive financing up to a maximum of $10,000 at six percent interest.

COMMERCIAL AND MULTI UNIT RESIDENTIAL	
PROGRAM NAME	**DESCRIPTION**
Commercial and Institutional Buildings Program for Energy Initiatives (CSIPEI)	This program provides a grant of up to $3,000 towards an energy audit to determine the potential for energy efficiency upgrades in a commercial building (eg. grocery stores, hotels, office buildings, institutional buildings, and recreational facilities). It also provides up to a maximum of $25,000 towards the energy retrofitting project costs.
Energy Efficiency Upgrades Program for Multi-Unit Residential Buildings (PEI MURB)	This program provides financial assistance to owners of residential buildings to make their buildings more energy efficient. The grant is calculated based on 15 percent of the cost of the recommended upgrades including PST and GST and excluding windows and doors which are eligible for a separate grant of $40 each. The maximum grant under this program is $15,000 based on the number of residential units in the property.

Source: PEI Office of Energy Efficiency Website

FINANCIAL AUDITS

7. INTRODUCTION TO FINANCIAL AUDITS

INTRODUCTION

7.1 Members of the Legislative Assembly need sufficient and reliable information on the province's financial condition in order to hold government accountable for its use and control of public funds. Section 13 of the *Audit Act* requires the Auditor General to perform financial audits of the province's consolidated financial statements, Crown controlled or owned corporations and the trusts and funds held by any agency of government insofar as they are not subject to a financial audit by an external auditor.

7.2 The governing body of an organization, such as a board of directors, has overall responsibility for the financial statements and other reported financial information as well as all related decisions. Management of the organization is responsible for preparing the financial information with oversight from those charged with governance. Financial information reflects management's assertions and provides information that is used to assess an organization's performance and management's stewardship over the economic resources entrusted to them. Therefore, it is imperative that the reader has confidence in the quality of the financial information provided.

7.3 To increase the degree of confidence in the financial information being reported, users often rely on the work of an independent auditor. The auditor can objectively assess the accounting principles used, the estimates made, and other management assertions reflected in the financial information. The auditor examines the entity's accounts and the presentation and disclosures of its financial information in accordance with Canadian generally accepted auditing standards.

7.4 Under these standards, the auditor must obtain a high level of assurance as to whether or not the financial information is fairly presented. Upon completion of the examination, the auditor expresses his opinion on whether the financial information presents fairly, in all material respects, the information reported. The auditor's opinion is expressed in the auditor's report.

7.5 In addition to issuing an auditor's report on the financial information, the auditor is required to communicate to those charged with governance and to management any significant issue or matter identified during the audit. This communication is often referred to as a management letter. The letter identifies any significant weakness noted in the entity's system of internal control, in management processes, compliance issues, or any other area of concern which the auditor concludes should be brought to the attention of those charged with governance.

7.6 For the majority of the financial audits we performed, management letters were issued. We brought to the attention of the governing body and management any significant issue or concern identified during the audit. We also made recommendations to address these items.

7.7 In the following sections, we provide summary comments on the Public Accounts Volume I and on our audits of the province's consolidated financial statements and appropriations and special warrants.

8. PUBLIC ACCOUNTS

BACKGROUND

8.1 Overall responsibility for the management of the province's finances rests primarily with Executive Council. Under the authority of the *Financial Administration Act,* Executive Council acts through Treasury Board to fulfill its fiscal management responsibility. The *Financial Administration Act* further delegates general responsibility for the management and direction of the province's finances to the Minister of Finance, Energy and Municipal Affairs. Responsibilities of the Minister include the operations of the department; all activities related to the Operating Fund; and supervision, control and direction of all financial matters of the province, unless specifically assigned to another minister or board.

8.2 Management of the province's finances is a significant responsibility which affects every taxpayer. With this responsibility comes the need for accountability. Taxpayers need to know how government has discharged its responsibilities in order to hold government accountable for its stewardship of the province's finances and resources.

8.3 The Legislative Assembly, including its Public Accounts Committee, plays a primary role in holding government accountable. To fulfill their oversight role, members of the Legislative Assembly need sufficient and reliable information. A primary source of information used by the Legislative Assembly is the Public Accounts. The Public Accounts consist of two volumes: Volume I contains the province's audited consolidated financial statements and Volume II contains the unaudited financial statements and details of revenues and expenditures of the Operating Fund. The audited financial statements of Crown corporations, agencies and funds are included in a supplement to Volume I of the Public Accounts. Our comments in this chapter are limited to Volume I of the Public Accounts.

8.4 The *Financial Administration Act* requires the Minister of Finance, Energy and Municipal Affairs to annually table the Public Accounts in the Legislative Assembly. The Comptroller is required to prepare the Public Accounts. According to the Act, the Public Accounts must contain the financial statements of the Operating Fund and the consolidated financial statements of the province. The consolidated financial statements provide the most complete information about the operating results and financial position of the province as they consolidate the accounts of the Operating Fund with those of the Crown corporations and agencies owned or controlled by the province.

OBJECTIVE AND SCOPE

8.5 The *Audit Act* provides a broad mandate for the Auditor General to examine and report on the use and control of public funds and resources entrusted to departments, Crown corporations and agencies. Section 16 of the Act requires the Auditor General to perform an audit of the Public Accounts of the province for each fiscal year and express an opinion on the province's consolidated financial statements.

8.6 The consolidated financial statements of the province are audited and reported upon by the Auditor General. Under Section 17 of the *Audit Act*, the Auditor General is not required to audit or report on the accounts of any agency of government where another auditor has been designated to audit its accounts. In these instances, the Auditor General considers the audit work performed by the external auditor of these entities when performing the audit of the province's consolidated financial statements.

8.7 Following are observations and recommendations arising from our review of Volume 1 of the Public Accounts and our audit of the province's consolidated financial statements for the fiscal year ended March 31, 2011. Comments to address other reporting requirements under the *Audit Act* are also provided. In addition, our reporting also considers the results of the financial statement audits of Crown corporations and agencies.

OBSERVATIONS AND RECOMMENDATIONS

FINANCIAL STATEMENT DISCUSSION AND ANALYSIS

8.8 The Public Accounts is a primary accountability report of the Government of Prince Edward Island. It provides an opportunity to integrate and accumulate key information about government operations that taxpayers need to know. It is a document that has the potential to provide one of the most complete reports on government's management of the province's finances and its stewardship over those resources.

8.9 Financial statement discussion and analysis is a core element of external reporting. The purpose of a financial statement discussion and analysis is to expand on and explain information contained in the financial statements. This information makes the financial statements more useful by extending the understanding of the information reported. For the province, the information supplements the consolidated financial statements allowing government to provide qualitative information on its management of the province's finances.

8.10 We reviewed the financial statement discussion and analysis for the March 31, 2011, year-end and noted an improvement over the prior year; however, further improvement to more fully utilize the Public Accounts as an accountability document is possible.

8.11 The following improvements could be made to the financial statement discussion and analysis:

- increased use of trend analysis to include items such as annual surplus/deficit trends, per capita trends, revenue and expense trends, credit rating trends and budget to actual trends;
- increased use of comparisons to other jurisdictions;
- expanded variance analysis and discussion on budget to actual results;
- discussion of the economy in which the financial results occurred;
- discussion of additional appropriations and special warrants; and
- discussion of risks.

8.12 Improving the information within the financial statement discussion and analysis could provide users with a better understanding of the financial results. It could also convey the context within which the results were obtained thereby providing users with more relevant information upon which to assess stewardship. We encourage government to make further improvements in this area.

TIMELY FINANCIAL STATEMENTS

8.13 Financial statements are an important source of information for decision-makers and their usefulness diminishes as time passes. In prior periods, we commented on the need to improve in this area as the consolidated financial statements and financial statements of Crown corporations and agencies were not being completed on a timely basis.

8.14 For the year ended March 31, 2011, there was a significant improvement in the timing of the completion of audit readiness requirements which facilitated the completion of interim audit work and the completion of the audit of the consolidated financial statements on a timely basis. The March 31, 2011, Public Accounts were released on August 29, 2011 whereas the 2010 Public Accounts were released on November 19, 2010. The Public Accounts were released prior to the August 31 date as required by the *Financial Administration Act* in the year with a fixed election date.

8.15 The improved timeliness of the completion of the Public Accounts was a significant achievement and we encourage government to continue with this timeline in the future.

CONSOLIDATED FINANCIAL STATEMENTS

8.16 The province's consolidated financial statements are included in Volume I of the Public Accounts. The Auditor General is required to express an opinion as to whether the province's consolidated financial statements present fairly, in all material respects, the financial position, results of operations, changes in net debt and cash flows in accordance with Canadian generally accepted accounting principles for the public sector. Our audit was carried out in accordance with Canadian generally accepted auditing standards. On August 25, 2011, we issued an unqualified audit opinion on the province's consolidated financial statements.

ACCOUNTING POLICIES AND BUDGETS

8.17 As part of our audit, we are required to assess the accounting policies used to prepare the province's consolidated financial statements. Significant steps have been taken towards preparing and presenting the consolidated financial statements in accordance with Canadian generally accepted accounting principles for the public sector. Consistent with prior periods, we did identify items which were not in full compliance.

8.18 Current accounting standards set as a basic requirement the inclusion of consolidated budget data within the consolidated financial statements. To facilitate meaningful comparisons, consolidated budgets need to be prepared and reported on the same basis as that used to prepare the consolidated financial statements. The 2010-11 Budget Estimates continued to be prepared on a consolidated basis; however, the format used in the budget and the basis used in the 2010-11 consolidated financial statements differed. The budget included the net annual surplus (deficit) of certain Crown corporations and agencies as revenue. Current accounting standards require inclusion of each consolidated entity's revenues and expenses rather than the net result.

8.19 The continued absence of budgeted revenue and expense information of Crown corporations and agencies in budget documents limits the usefulness of budget information in assessing Crown corporation and agency operations. We encourage government to address this issue by revising the budget format to follow the format used for the consolidated financial statements.

8.20 In addition to fully consolidated entities, government business enterprises are consolidated on the modified equity basis. For the year ended March 31, 2011, government business enterprises contributed net revenue of $46.6 million to the province. This revenue is reflected on the consolidated financial statements as a single line item. These entities generated gross revenues of $134.8 million, incurred expenses of $88.1 million and controlled assets with a balance of $462.6 million at March 31, 2011. The expenses ranged from $577,000 for the Prince Edward Island Energy Corporation to $50.8 million for the Prince Edward Island Liquor Control Commission. These entities are also budgeted on a net revenue basis resulting in limited debate and transparency of their financial plans. This issue was also reported in the prior year and action is still needed.

TANGIBLE CAPITAL ASSETS

8.21 As in prior periods, we continue to note concerns with capital budgets. Although the province prepares capital budgets, these budgets are not prepared on the same basis as the province's tangible capital asset policy. Capital budgets continue to include expenditures for assets which are below the threshold limits for capitalization as defined in the province's tangible capital asset policy. We encourage the province to prepare its capital budgets on a basis consistent with its tangible capital asset policy and consistently apply its policy thresholds.

8.22 Our testing of tangible capital assets also noted items previously reported are still outstanding and in need of attention. During our audit, we raised concern over the classification of repairs and maintenance expenditures versus expenditures for improvements or betterment of capital items. Our audit identified transactions recorded as capital which, in our opinion, did not meet the criteria for capitalization. We concluded there is a need for additional policy guidance in this area.

Recommendation

8.23 The tangible capital asset policy should be reviewed and updated to provide users with additional guidance on capitalizing expenditures.

COMMITMENTS

8.24 The consolidated financial statements include a note on commitments against future appropriations through multi-year contracts and obligations. For the March 31, 2011, year-end, we noted an improvement in the disclosure of commitments and contractual obligations. Total reported contractual obligations at March 31, 2011, were $491 million which represents a significant commitment of future financial resources. Included in this amount is $161.4 million for Holland College and the University of Prince Edward Island to service the debt incurred by these organizations for capital assets. There were also additional disclosures of commitments for significant agreements and Crown corporations.

TIMELY PREPARATION OF FEDERAL CLAIMS

8.25 In previous years, we raised concern over the timely completion of federal claims. During the audit, we noted more claims are current; however, there are still significant claims which have not been completed. At March 31, 2011, federal receivables totalled $51 million (2010 - $42 million). Timely completion of federal claims improves cash flow and reduces borrowing and related interest costs. Continued efforts are needed in this area.

GUARANTEED DEBT

8.26 As noted in our 2011 annual report, the amount of debt guaranteed by government significantly increased in recent years. Guaranteed debt was $252.7 million at March 31, 2011, down from 254.7 million at March 31, 2010. The overall decline was due primarily to the province assuming the management of student loans through a Crown corporation. As a result, the guarantees were eliminated and a loan portfolio was created through the PEI Student Financial Assistance Corporation. The balance of the student loan portfolio at March 31, 2011, was $25.6 million.

8.27 **Exhibit 8.1** summarizes the components of guaranteed debt for the past five years as reported in the Guaranteed Debt schedule in the consolidated financial statements. Guarantees related to debentures/ capital loans continue to significantly increase.

EXHIBIT 8.1
GUARANTEED DEBT
YEAR ENDED MARCH 31
(Thousands)

	2011	2010	2009	2008	2007
Lines of credit/demand loans	$ 49	$ 40	$ 46	$ 67	$ -
Student loans	-	25,108	24,989	25,312	23,897
Debentures/capital loans	249,805	226,227	213,618	177,417	138,920
Crown corporations and agencies	2,853	3,346	2,713	5,759	7,495
Total guaranteed debt	$252,707	$254,721	$241,366	$208,555	$170,312

8.28 In addition to the guaranteed debt noted above, there is a guarantee related to the Credit Union Deposit Insurance Corporation (CUDIC) whereby the province shall ensure the obligations of the CUDIC are carried out. The CUDIC provides deposit insurance coverage on insurable deposits in each of the ten credit unions in the province. At December 31, 2010, the CUDIC had an equity balance of $10.2 million (2009 - $9.5 million). Insurable deposits totaled $606.3 million at December 31, 2010 (2009 - $596.1 million).

8.29 The level of guaranteed debt represents a significant level of financial risk assumed by the province. This risk needs to be monitored on a regular basis to ensure the financial exposure of the province is minimized.

ANNUAL REPORTS

8.30 The *Financial Administration Act* requires reporting entities to provide an annual report within six months of their year-end. Last year, we reported several instances where annual reports were not completed or made public as required by the Act. This issue was also identified in the current year. We noted the following entities were not in compliance with the reporting requirements of the Act: the Prince Edward Island Lotteries Commission, the Prince Edward Island Lending Agency, the Teachers and Civil Service Superannuation Funds, the Prince Edward Island Housing Corporation, Island Waste Management Corporation and Risk Management and Insurance.

8.31 Non-compliance with this section of the Act diminishes accountability and we urge government to address this issue.

COMPLIANCE WITH TREASURY BOARD POLICIES

8.32 The Treasury Board Policy and Procedures Manual sets the rules by which government conducts its operations. The manual applies to departments, Crown corporations and agencies of the province as defined in the *Financial Administration Act,* unless specific sections of the manual or legislation state otherwise.

8.33 As part of our audits, we test expenditures for financial reporting purposes and review the related Treasury Board policy requirements. As a result, we often identify transactions such as travel expenses which are not in compliance with the requirements of Treasury Board's travel policy. Senior management of the departments, Crown corporations and agencies has the responsibility to ensure Treasury Board policies are complied with. Currently, there is no central process to verify and monitor compliance with Treasury Board policies.

Recommendation

8.34 Compliance with Treasury Board policies should be monitored and periodic verification processes should be completed.

REVIEW OF MANAGEMENT LETTERS

8.35 As part of our audit of the consolidated financial statements, we review management letters issued to Crown corporations and agencies. Our review noted issues related to compliance with internal policies and accounting standards, the need to improve certain internal controls, data access issues, as well as governance concerns. Many of these issues had been reported in prior periods; however, action is still needed. We noted there is no reporting to Treasury Board on the status of issues identified.

Recommendation

8.36 Treasury Board should implement a process to ensure appropriate action is taken to address identified issues.

PENSION OBLIGATIONS

8.37 Pension obligations continue to be significant. The market value of assets, which had seen a significant decline over the 2008 and 2009 years, continued to improve in the current year. **Exhibit 8.2** reflects the net pension assets for each of the past five years. Pension obligations are based on full actuarial valuations completed every three years with estimates updated by the province during the interim periods.

EXHIBIT 8.2
NET PENSION ASSETS
YEAR ENDED MARCH 31
(Millions)

	2011	2010	2009	2008	2007
Gross pension obligations	$(1,782.6)	$(1,631.1)	$(1,596.6)	$(1,493.2)	$(1,391.2)
Pension fund assets	1,527.8	1,408.4	1,157.7	1,381.0	1,409.1
Unfunded pension (liability) Surplus	(254.8)	(222.7)	(438.9)	(112.2)	17.9
Unamortized net losses	279.3	270.4	471.2	155.4	13.6
Net pension assets	$ 24.5	$ 47.7	$ 32.3	$ 43.2	$ 31.5

8.38 Key determinants of the estimated pension obligation are the assumptions made by the province for the rate of return on plan assets and the discount rate. Small changes in these assumptions can have significant impacts on the obligation and related expenses. Normally, the province uses consistent actuarial rates based on the most recent valuations for the years between actuarial valuations. For the 2010 and 2011 consolidated financial statements, the province used different rates without new actuarial valuations being performed. Our survey of other jurisdictions noted that change to assumptions in years between actuarial valuations is uncommon. In instances where the assumptions did change, a full actuarial review of all assumptions was completed. While there is no requirement to conduct full actuarial valuations when there is a change in assumptions during the interim period, the reasons for the change and a review of all assumptions should be well documented.

8.39 **Exhibit 8.3** summarizes the changes in the Civil Service Superannuation Fund (CSSF) and the Teachers' Superannuation Fund (TSF) discount rate assumption since the last actuarial valuation. The exhibit also notes the estimated impact of the change on the pension obligations.

EXHIBIT 8.3
CHANGE IN DISCOUNT RATES AND EFFECT ON OBLIGATIONS YEAR ENDED MARCH 31
(Millions)

Year	Discount Rate	Change in CSSF Opening Obligation	Change in TSF Opening Obligation	Total Change
2009	7.37%	$ -	$ -	$ -
2010	7.88%	(58.9)	(30.6)	(89.5)
2011	7.63%	34.5	17.0	51.5
2012	7.37%	$36.8	$17.7	$54.5

The effective date of the change in the discount rate was April 1st.

8.40 The last full actuarial valuations for the CSSF and the TSF were dated April 1, 2008, while the Pension Plan for Members of the Legislative Assembly was dated April 1, 2009. Actuarial valuations for the CSSF and the TSF pension plans are underway and scheduled to be completed in the first half of 2012.

8.41 **Exhibit 8.4** provides a summary of the change in the Prince Edward Island Master Trust. The Master Trust is the pool of pension assets used to fund pension obligations. The total market value of pension assets held and the rate of return is noted.

EXHIBIT 8.4
PRINCE EDWARD ISLAND MASTER TRUST
YEAR ENDED MARCH 31
(Millions)

	2011	2010	2009	2008	2007
Master Trust Investments	$1,430	**$1,293	$ 1,008	$1,220	$1,223
Change in Master Trust Investments:					
- Special contributions by government	$ 26	$ 80	$ 28	$ 34	$ 22
- Interest and dividends	42	37	40	48	44
- Market value gains (losses)	95	**192	** (261)	(87)	65
- Plan withdrawals and expenses less contributions	(26)	(24)	(19)	(22)	(16)
- Transfer of assets from Uniform Pension Plan*	-	-	-	24	178
Total increase (decrease)	$ 137	$ 285	$ (212)	$ (3)	$ 293
Plan asset rate of return	10.2%	22.1%	(17.1%)	(3.1%)	11.5%

*In prior years, health sector employees contributed to the Uniform Pension Plan. This plan was amalgamated with the Civil Service Superannuation Pension Plan.
**Reflects subsequent adjustment.

8.42 The March 31, 2011, consolidated financial statements noted the average annual CSSF pension payment totalled approximately $15,500 while the TSF average was approximately $26,700. As of March 31, 2011, the actuarial projections for accounting purposes showed that the CSSF was underfunded by $139.9 million while the TSF was underfunded by $88.4 million. **Exhibit 8.5** notes current contributions for the CSSF and the TSF are in excess of the amount required to fund the current service costs. Interest costs related to the unfunded liability are also noted. Although, net excess contributions for the CSSF are reducing the unfunded position of the Fund; current payments to retirees and interest costs on the unfunded liability are increasing the unfunded position of the Fund. For the TSF, the benefit of excess contributions is generally offset by interest costs on the unfunded liability. As a result, payments to retirees are increasing the unfunded position of the TSF.

EXHIBIT 8.5
PENSION FUNDS
YEAR ENDED MARCH 31
(Millions)

	2011	2010	2009	2008	2007
Civil Service Superannuation Fund Year Ended March 31					
Investment income - net*	$24	$23	$25	$30	$24
Benefits paid	(44)	(41)	(38)	(36)	(30)
Interest costs on unfunded liability	(9)	(14)	(3)	4	(1)
Shortfall	(29)	(32)	(16)	(2)	(7)
Current contributions**					
- Employee	24	23	22	21	19
- Employer	24	23	22	21	19
	48	46	44	42	38
Current service cost	(35)	(31)	(32)	(31)	(30)
Excess annual contributions	13	15	12	11	8
Net Shortfall/Excess	$(16)	$(17)	$ (4)	$ 9	$ 1
Teachers' Superannuation Fund Year Ended June 30					
Investment income - net*	$15	$13	$15	$19	$21
Benefits paid	(39)	(38)	(36)	(35)	(34)
Interest costs on unfunded liability***	(6)	(11)	(5)	(2)	(3)
Shortfall	(30)	(36)	(26)	(18)	(16)
Current contributions**					
- Employee	9	8	8	7	7
- Employer	9	8	8	7	7
	18	16	16	14	14
Current service cost***	(12)	(11)	(12)	(10)	(10)
Excess annual contributions	6	5	4	4	4
Net Shortfall	$(24)	$(31)	$(22)	$(14)	$(12)

*Total interest and dividend income less operating expenses.

**Includes excess employee and employer contributions.

***For the year ended March 31.

OTHER REPORTING REQUIREMENTS

CANCELLATION OR DISCHARGE OF DEBT

8.43 Section 16 of the *Audit Act* requires the Auditor General to report the total amount of any claims, debts or monies due to the province that have been discharged, cancelled and/or released under Section 26 of the *Financial Administration Act*. The total amount owed by third parties to the province and discharged, cancelled, released and/or written-off was $927,315 in 2010-11. The amount cancelled or discharged under Section 26 is detailed in **Exhibit 8.6**.

EXHIBIT 8.6
AMOUNTS CANCELLED OR DISCHARGED
YEAR ENDED MARCH 31, 2011

	Section 26 (1)	Section 26.1 (1)
Environment Tax Act	$ -	$ 5,760
Revenue Tax Act	-	432,515
Registry Act	-	829
Department of Community Services, Seniors and Labour	-	5,681
Long-term Care Subsidization Act	172,560	-
Real Property Tax Act	309,970	-
	$ 482,530	$ 444,785

SURPLUS (DEFICIT) CROWN CORPORATIONS AND AGENCIES

8.44 Section 16 of the *Audit Act* also requires the Auditor General to include information in the Annual Report on deficits of Crown corporations and agencies not covered by appropriations in the year in which they have been incurred and any surpluses not paid into the Operating Fund in the year in which they are earned. In **Exhibit 8.7**, we have also included the cumulative surplus or deficit for each entity as well as information on the Workers Compensation Board.

EXHIBIT 8.7
SURPLUS (DEFICIT)
CROWN CORPORATIONS AND AGENCIES
YEAR ENDED MARCH 31, 2011

	Annual Surplus (Deficit)	Cumulative Surplus (Deficit)
Advisory Council on the Status of Women	20	93
Agricultural Insurance Corporation	4,131,171	6,664,860
Aquaculture and Fisheries Research Initiative Inc.	(28,496)	505,661
Charlottetown Area Development Corporation*	135,720	602,766
Eastern School District (June 30, 2010)	10,737	41,700
Energy Corporation	3,077,837	18,784,829
French Language School Board (June 30, 2010)	(2,091)	12,135
Grain Elevators Corporation (July 31, 2010)	(61,290)	466,697
Harness Racing PEI Inc. (January 31, 2011)	23,602	(463,402)
Human Rights Commission	(10,817)	(8,263)
Innovation PEI	2,820,881	2,959,727
Island Investment Development Inc.	18,687,953	37,504,253
Island Waste Management Corporation	70,439	612,527
Lending Agency	390,451	1,622,676
Museum and Heritage Foundation	40,983	824,966
Self-Insurance and Risk Management Fund	(1,212,021)	4,890,268
Student Financial Assistance Corporation	(3,564)	(3,564)
Summerside Regional Development Corporation*	(6,968)	1,340,492
Western School Board (June 30, 2010)	5,930	11,828
Workers Compensation Board (December 31, 2010)	15,315,120	20,177,948

*Includes the provincial portion only.

Cumulative surplus (deficit) does not include contributed surplus or share capital.

MANAGEMENT RESPONSE

8.45 Our observations and recommendations have been discussed with management.

9. APPROPRIATIONS AND SPECIAL WARRANTS

INTRODUCTION

9.1 Government's legislative authority to spend public funds is provided annually by an appropriation act. Authority to exceed the initial amount set by an appropriation act is provided by a special warrant or transfer of an appropriated amount.

9.2 Appropriation acts require the approval of the Legislative Assembly whereas special warrants require the approval of the Lieutenant Governor in Council acting on the advice and recommendation of Executive Council. Special warrants are used when the Legislative Assembly is not in session and funds are needed for operations. Transfers are generally approved by Treasury Board.

9.3 For the fiscal year ended March 31, 2011, the *Appropriation Act (Current Expenditures) 2010* authorized $1,478.4 million in current expenditures while the *Appropriation Act (Capital Expenditures) 2010* authorized $154.7 million for capital. Special warrants accounted for an additional $24.8 million in authorized spending. Special warrants issued for current expenditures totalled $18.8 million while special warrants for capital expenditures totalled $6 million. A special warrant of $717,200 for capital was sequestered from current expenditures.

APPROPRIATIONS

9.4 The *Audit Act* requires the Auditor General to "provide an opinion on whether the expenditures that were authorized by the annual appropriation act, or by special warrant, were expended for the purpose for which they were appropriated."

9.5 Our audit of appropriations and special warrants for the year ended March 31, 2011, concluded amounts were expended for the purpose for which they were appropriated. In addition to the information provided in **Schedules A** and **B**, readers should also consider the province's consolidated financial statements and our audit report on those statements.

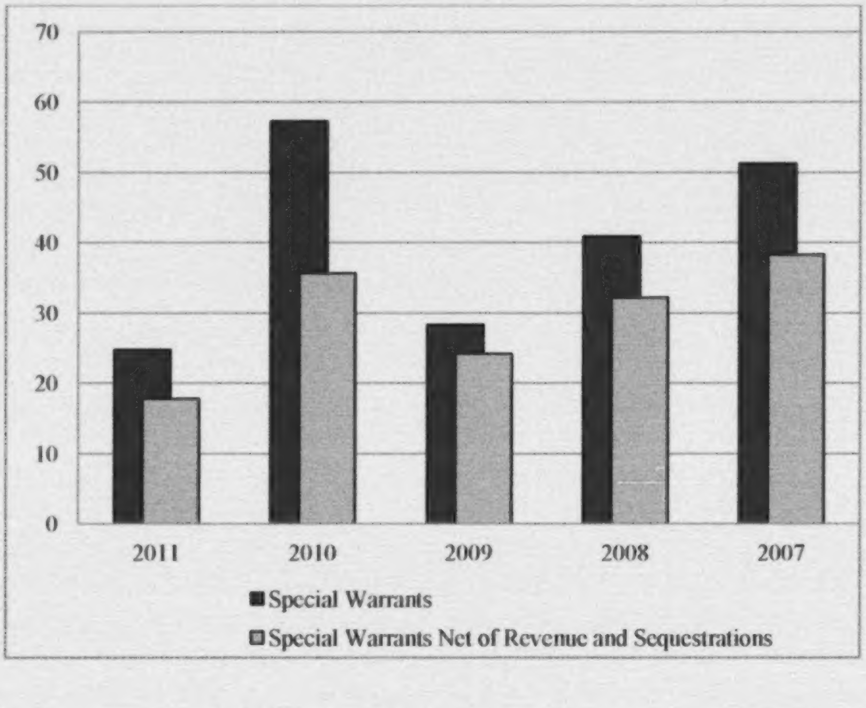
9.6 **Schedule A** provides a comparison of appropriations to actual expenditures in accordance with the classifications in the 2010 appropriation acts.

SPECIAL WARRANTS

9.7 The *Audit Act* also requires the Auditor General to list, in detail, all appropriations made by special warrant and their purpose. This list is provided in **Schedule B** of this report.

9.8 Special warrants for the March 31, 2011 fiscal year were partially offset by a $3.3 million increase in revenue and a sequestration of $3.7 million from previously authorized appropriations resulting in a net increase in spending authority of $17.8 million. **Exhibit 9.1** depicts the total amount of special warrants and special warrants net of revenue and sequestrations for each of the last five years.

EXHIBIT 9.1
SPECIAL WARRANTS
YEAR ENDED MARCH 31
(Millions)



DELAY IN ISSUING SPECIAL WARRANTS AND TRANSFERS

9.9 As required by the *Financial Administration Act*, expenditures should not be incurred unless provided for by an appropriation. In cases where an appropriation is expected to be exceeded, the spending authority should be in place prior to the expense being incurred. Consistent with prior years, our audit of appropriations identified instances when the approval was after the fact. That is, the statutory authority for the expenditure was not in place prior to the expenditure being incurred.

9.10 During our audit, we noted six departments and Crown corporations had exceeded their authorized current expenditure appropriation. In order to comply with the requirements of the *Financial Administration Act,* expenditures forecasts should identify areas of over-expenditure on a timely basis so that the appropriate spending authority can be in place prior to expenditure being incurred.

Recommendation

9.11 Forecasting processes should be sufficient to identify over-expenditures on a timely basis to ensure spending authority is in place prior to the expenditure being incurred.

CAPITAL BUDGETS

9.12 We examined the capital budget for various departments and noted an approved detailed capital budget for the Department of Transportation and Infrastructure Renewal (TIR) was not available for our review. A summary capital budget for TIR was approved and capital expenditures were charged against the capital budget based on criteria established by the province's tangible capital asset policy.

Recommendation

9.13 Detailed capital budgets should be available for all departments.

CAPITAL BUDGET MONITORING

9.14 Approved capital budgets are posted to the province's financial system. Normally, if an appropriation has been exceeded, it would be identifiable by a comparison of the budget to actual expenditure accounts. At year-end, capital transactions are reallocated and non-capital transactions remain in the capital expenditure accounts. As a result, a comparison of the appropriation in the accounting system to the actual expenditures is no longer possible.

Recommendation

9.15 Current and capital expenditures should be accounted for separately.

COMPLIANCE

9.16 *The Financial Administration Act* requires all appropriation transfers between departments to be reported to the Legislative Assembly on a timely basis. Our work identified transfers which were not reported to the Legislature on a timely basis.

Recommendation

9.17 The reporting requirements of the *Financial Administration Act* related to transfers should be complied with.

MANAGEMENT RESPONSE

9.18 We have discussed our findings and recommendations with management.

UPDATE ON PREVIOUS RECOMMENDATIONS

10. UPDATE ON PREVIOUS RECOMMENDATIONS

INTRODUCTION

10.1 Each special audit and examination results in a report which is provided, through our annual report, to the Legislature. A fundamental component of these audit reports are recommendations which address observations or deficiencies noted during the audit. They are designed to contribute to the improvement of the management and administration of government operations and programs. It is management's prerogative to select the best course of action to address the issues identified. Our concern is that all recommendations are being addressed by management.

10.2 Annually, we request information on the action taken in addressing outstanding recommendations. This information is normally requested through the deputy minister or chief executive officer of the organization. At a minimum, we review each response for reasonableness. It is normally more cost effective to carry out detailed verification during the next audit.

10.3 Following is summary information we obtained on the status of recommendations from the special audits and examinations reported in the 2011 Annual Report of the Auditor General as well as outstanding recommendations from audits in the 2010, 2009, 2008 and 2007 annual reports.

SPECIAL EDUCATION - EASTERN SCHOOL DISTRICT

10.4 Following are the recommendations resulting from our audit of the Special Education - Eastern School District in the 2011 Annual Report of the Auditor General. The status of implementation of the recommendations is provided based on information received from management of the Eastern School District and the Department of Education and Early Childhood Development.

Auditor General's Recommendation	Status/Management Response
In accordance with the Ministerial Directive, the Department of Education and Early Childhood Development should evaluate and report on special education programs and services. The Department of Education and Early Childhood Development should re-examine the funding formula in place for instructional special education resource positions.	The Department's efforts will be complemented by the collaboration and integration of all government services that benefit children and youth, as a result of the work of the Youth Commissioner. The Department commissioned the Education Governance Commission Report, the objective of which was to address the efficiency and accountability of resources used to provide the highest quality services to children. The Department is in the process of writing a provincial Special Education Review which will address all of the audit recommendations.
The Department of Education and Early Childhood Development, in conjunction with the Eastern School District, should re-examine the method of allocating educational assistant positions to schools.	The Department commissioned the Education Governance Commission Report, the objective of which was to address the efficiency and accountability of resources used to provide the highest quality services to children. The Department is also in the process of writing a provincial Special Education Review which will address all of the audit recommendations.

Auditor General's Recommendation	Status/Management Response
	The ESD has drafted a new and more criteria-based means of collecting information regarding students who require educational assistant support. This information will be used to identify the support required and the purpose of that support so that students are less likely to receive blanket coverage when support is actually needed at specific times of the day or for specific tasks. This process will be piloted throughout the District in the spring of 2012.
The Eastern School District should allocate instructional special education resource positions based on the approval by the Department.	The Eastern School District Inclusive Education Policy was approved in April 2011 and introduced as new policy to all administrators and resource staff. Resource Model Guidelines have been approved as Administrative Regulations.
The Department of Education and Early Childhood Development should obtain and monitor information from the Eastern School District on the staffing and resource allocations for special education.	The Department commissioned the Education Governance Commission Report, the objective of which was to address the efficiency and accountability of resources used to provide the highest quality services to children. We are also in the process of writing a provincial Special Education Review which will address all of the audit recommendations.
The Eastern School District should obtain information from the schools on the utilization of staffing allocations for special education.	After consultation, each school was provided a target number for its full-time equivalency resource allotment. This figure was based on the staffing formula, school size, and needs as well as the skill and expertise in the building. Yearly, meetings are held to discuss the documented resource plan submitted by each school and how closely it reflects the guidelines and the target staffing allotment.

Auditor General's Recommendation	Status/Management Response
The Eastern School District should report to the Department on the delivery of special education programs and services, including the utilization of staffing and resource allocations.	Full-time equivalency totals for resource and special education instructional staff were communicated to the Department of Education and Early Childhood Development as part of the Special Education Review Committee's work in the spring of 2011. Full-time equivalency totals for resource support staff (educational assistants, youth service workers, work placement assistants and student attendants) are made known to the Department of Education and Early Childhood Development every spring.
The Department of Education and Early Childhood Development should establish standards for the qualifications, experience, and training for special education instructional positions. The Department of Education and Early Childhood Development should establish and communicate clear criteria on what constitutes special education programming and services and which students should be recorded in the student database.	The Department commissioned the Education Governance Commission Report, the objective of which was to address the efficiency and accountability of resources used to provide the highest quality services to children. We are also in the process of writing a provincial Special Education Review which will address all of the audit recommendations.

Auditor General's Recommendation	Status/Management Response
The Eastern School District should ensure that IEPs are developed and/or updated for all students where necessary. The Eastern School District should ensure that IEPs are • completed in all areas and areas that are not applicable for a student are clearly identified; • formally approved by all required stakeholders; and • formally signed off by inclusive education consultants. In accordance with Departmental guidelines, schools in the Eastern School District should ensure complete and individualized documentation is on file for students' modified programs outlining the timing, nature, and extent of modification as well as any required approvals. In accordance with Departmental guidelines, schools in the Eastern School District should ensure completed and properly approved adaptation forms are on file for all adaptation interventions.	The Eastern School District has recently reviewed with the schools the newly revised PEI Student Records Guidelines. Ongoing professional development is held with resource teachers regarding documentation practices for Individualized Education Plans (IEPs) and modification and adaptation records. Two half days of professional development support have been provided to schools who were identified as needing additional support with their resource models and practices. This professional development included administrators and resource teachers. All IEPs are developed in the fall of the school year with parent and administrative approval and are then submitted to the appropriate Board-based consultant by December 1. IEPs are expected to be reviewed mid year. A review of the staffing needs of our District Student Services Department will attempt to meet the needs for IEP development and follow-up for the 2012-13 school year.

Auditor General's Recommendation	Status/Management Response
The Eastern School District should ensure referrals for psycho-educational assessments are supported by all required documentation in accordance with Departmental guidelines. The Eastern School District should take action to improve wait times for psycho-educational assessments.	The Eastern School District has implemented a new consultation referral model. Included in this review are recommendations that have since been implemented with respect to consent for referral forms as well as the pre-referral assessment that is required of the student's base school. The new process allows for the psychologist's input and initial consultation far in advance of formal assessment, allowing for more immediate support for students and reduced wait times for services.
The Eastern School District should implement procedures to ensure recommendations from psycho-educational assessments are reflected in the students' intervention plans.	The Eastern School District has recently reviewed with the schools the newly revised PEI Student Records Guidelines. Ongoing professional development is held with resource teachers regarding documentation practices for IEPs and modification and adaption records. Two half days of professional development support have been provided to schools which were identified as needing additional support with their resource models and practices. This professional development included administrators and resource teachers. All IEPs are developed in the fall of the school year with parent and administrative approval and are then submitted to the appropriate Board-based consultant by December 1. IEPs are expected to be reviewed mid year. A review of the staffing needs of our District Student Services Department will attempt to meet the needs for IEP development and follow-up for the 2012-13 school year.

FOOD SAFETY

10.5 Following are the recommendations resulting from our audit of Food Safety in the 2011 Annual Report of the Auditor General. The status of implementation of the recommendations is provided based on information received from management of the Department of Health and Wellness.

Auditor General's Recommendation	Status/Management Response
The Division of Population Health should develop objectives and related performance indicators for the Food Safety Program.	Goals, objectives and performance indicators have been established for the Food Safety Program. The 2011 data will be considered baseline and trends will be monitored on an ongoing basis.
The goals and results achieved through delivery of the Food Safety Program should be measured and reported on a regular basis.	Monthly internal reporting is allowing for timely intervention particularly when there is an increase in overdue inspections. As of January 2012, the Environmental Health Office (EH) will report results achieved quarterly to senior management at the Department of Health and Wellness and for the annual report. The first annual report by the Chief Public Health Officer is planned for public release in the spring of 2012. The 2011 results for the Food Safety Program will be included in this publication on an ongoing basis.

Auditor General's Recommendation	Status/Management Response
In accordance with Department policy, the Department of Health and Wellness should take action to provide public access to food safety inspection reports.	The Environmental Health Office (EH) posts warnings to the website on a monthly basis. EH is working with ITSS to provide timely and effective public access to food safety reports. Ongoing efforts to improve IT systems are near completion. The EH inspection disclosure website has been developed and will be tested again in the spring 2012. Populating the website with inspection reports is scheduled to begin in June 2012.
To help maximize public health protection, the Environmental Health Section should adopt a model to categorize eating establishments based on documented risk assessments.	Implementation of the risk categorization model began February 7, 2011. All risk categorization assessments are reviewed and signed off by management. Risk categorization assessments for all establishments subject to the *Eating Establishments and Licensed Premises Regulations* (EELP) will be completed by February 1, 2012.
Documented risk assessments should be updated regularly as part of the inspection process.	Risk assessments will be updated by Environmental Health Officers (EHOs) as part of the inspection process. The factors which contribute to a reassessment of the risk category are as follows: a) new establishment; b) change in management or ownership; c) change in a risk factor. This process is scheduled to become policy when the risk categorization model is fully implemented in February of 2012.

Auditor General's Recommendation	Status/Management Response
The Environmental Health Section should establish a policy setting out the required frequency of inspection for various levels of risk.	Studies have shown that conducting more than three routine inspections per year does not result in better compliance. Current data indicates that approximately 18 percent of routine inspections generate a follow-up inspection to deal with outstanding items. Therefore, the following targeted inspection frequency has been selected: High risk - 3 times/year; medium risk - 2 times/year and low risk - 1 time/year. The new inspection frequency is being established in policy and will come into effect in February 2012 when all risk categorization of clients is complete.
The Food Safety inspection form should be reviewed and updated to ensure it reflects the requirements of the *Eating Establishments and Licensed Premises Regulations*.	The Department of Health and Wellness is making changes in charting practices. Amendments to the EELP Regulations are scheduled to occur in 2012 with subsequent follow-up work to the inspection form and the electronic platform.
A quality control process should be implemented to monitor a sample of inspection reports from each inspector to assess consistency in the application of the *Eating Establishments and Licensed Premises Regulations*.	The following quality control processes have been put in place: 1) EH has implemented regular biweekly "best practice" meetings for EHOs and management to work through issues encountered in the field. 2) A consultant has been hired to develop an audit tool which will be used to audit a statistically relevant number of inspections per EHO to ensure consistency with data entry.

Auditor General's Recommendation	Status/Management Response
	3) On an annual basis, each EHO will be conducting joint inspections with other EHOs to help ensure consistency and balanced use of authority in enforcing the EELP Regulations. The audit tool will be ready for implementation by March 31, 2012.
Food Safety inspection reports should demonstrate that all aspects of the inspection have been addressed by the inspector.	Currently the electronic system will automatically generate "N/A" for an item that is not applicable to a particular establishment or an inspection. "N/A" is reflected on the report that is printed in the field and left with the operator. A change in procedure requires the EHOs to record in the comment section that all areas required have been addressed by the inspector. Further work on this recommendation will occur when changes to the electronic system are made reflecting the changes to the EELP Regulations scheduled in 2012. The change in procedure will be reflected in the policy manual by February 2012.
The Environmental Health Section should periodically assess the completeness of the Environmental Health Information System database to ensure it includes all establishments that require food safety inspections.	EH regularly adjusts its database when requests for updated inspections are received by those Licensing Boards for Child Care Facilities as well as Community Care and Nursing Home facilities. EH has regular communication with the PEI Liquor Control Commission with respect to both outdated or new premises. All schools in PEI are currently inspected and if there are new schools planned, EH is contacted by the Department of Transportation and Infrastructure Renewal.

Auditor General's Recommendation	Status/Management Response
	A request was made to the Taxation and Property Records Office to develop a notification process for new provincial sales tax applicants who plan to sell food. The Taxation and Property records Division of Finance, Energy and Municipal Affairs will undertake a review of its current revenue tax vendor registration process to determine if it is feasible, under FOIPP legislation, to implement a reporting process that will provide EH with information on new registrants who are in the business of selling prepared food products or tobacco.
At a minimum, all eating establishments should be inspected annually in accordance with the *Eating Establishments and Licensed Premises Regulations.*	Each EHO receives a monthly report outlining "overdue inspections" and "inspections coming due" in the month. This report is used to develop a weekly workplan to maximize inspection time and to minimize travel and overdue inspections. The addition of three full time equivalent EHOs has been an immense improvement to Environmental Health's ability to conduct inspections in a timely manner, particularly in light of the fact that the Risk Categorization has resulted in the need for more frequent inspections overall. EH is developing a crystal report that will identify those establishments which are "one year overdue."
Follow-up inspections should be carried out on a timely basis.	Completed. The new report outlined above tracks "overdue inspections," both routine and follow-up, and steps are in place to ensure these are followed up quickly.

Auditor General's Recommendation	Status/Management Response
The Environmental Health Section should ensure that approval certificates are not renewed until the eating establishment's most recent inspection is current and satisfactory.	In March 2011, Environmental Health adopted more internal controls to support this item. EHOs must now review each application and record the date of the previous satisfactory inspection prior to approval. *The Inspection and Approval of Eating Establishments and Licensed Premises Policy* is in the process of being amended to reflect this new process.
The Environmental Health Section should follow up on a timely basis with all eating establishments that have not applied for a license renewal.	In February 2011, a letter was sent out with the application package to all establishments. This letter advised of the policy change that failure to produce a valid license on inspection would result in a warning posted to the EH website. This policy change was presented at all spring 2011 food service seminars. The frequency of posting warnings was changed to once per month to increase exposure. The EELP Regulations are slated for amendment in 2012 and require the appropriate tools to deal with "failure to make application." The ability to collect a late fee or a monetary penalty, such as a summary offence ticket, is being considered.
Management of Environmental Health should receive a regular, reliable report on overdue inspections.	Completed. A report is prepared monthly for management.

Auditor General's Recommendation	Status/Management Response
The Environmental Health Section should take steps to improve the accuracy and consistency of the information recorded in the Environmental Health Information System database.	The following steps have been taken to improve the accuracy and consistency of data: • upgraded all EH systems to version 8 of fieldworker; • significant updates to EHIS in terms of data entry and record retrieval; and • development of the audit and audit tool as previously described. These items will be completed by spring 2012.
To ensure the requirements of the Canadian Institute of Public Health Inspectors are met, the Environmental Health Section should monitor the extent of professional development received by environmental health officers.	Completed. Environmental Health is working on the first official summary of continuing education hours earned by EHOs. EH will continue to support EHO's efforts to obtain education hours.
In accordance with conflict of interest policy approved by Treasury Board, each environmental health officer should file a personal disclosure statement.	Completed. All staff have filed a personal disclosure statement in August 2010 and again in 2011. There is an annual process for reviewing the new Conflict of Interest Policy.

SCHOOL MAINTENANCE - WESTERN SCHOOL BOARD

10.6 Following are the recommendations resulting from our audit of School Maintenance - Western School Board in the 2011 Annual Report of the Auditor General. The status of implementation is provided based on information received from management of the Western School Board and the Department of Education and Early Childhood Development.

Auditor General's Recommendation	Status/Management Response
The Western School Board should develop a policy which at a minimum • identifies maintenance level standards it expects to achieve for its buildings, equipment, and playgrounds; • defines criteria for prioritizing its maintenance projects; • incorporates the roles and responsibilities of key players; and • refers to key legislation that impacts the maintenance of schools.	The Western School Board has begun work on developing a policy pertaining to school maintenance. Our intent is to build on this beginning and implement standards, duties, and prioritization criteria. It is our goal to have the policy finalized and implemented at the beginning of the 2012-13 school year.

Auditor General's Recommendation	Status/Management Response
The Western School Board should implement a more structured approach to managing its preventative maintenance program, including the following: • having one comprehensive source of preventative maintenance for all building components and equipment; • highlighting mandated maintenance; • incorporating building envelope into its preventative maintenance program, including regular documented inspections of each building's overall condition; • creating more substantial air quality preventative maintenance tasks for mould identification and ductwork cleaning; and • considering manufacturer's recommendations or industry best practices when designing the preventative maintenance program.	WSB has implemented improved use of computerized spreadsheets, scheduling software, and e-mail. WSB property maintenance personnel have implemented processes whereby much of the regular preventative maintenance of buildings, equipment, and playgrounds at each of our locations is scheduled and tracked to better ensure compliance and completion. We have identified items that we are required by legislation to inspect and service. Effective September 11, 2011, WSB has been formally tracking and reporting monthly on the condition of the WSB facilities. The resulting projects have been prioritized for follow up. Electronic preventative maintenance schedules to address air quality have been prepared for duct cleaning, drape cleaning, dryer duct cleaning, boilers, air handling units, and mould remediation.
The preventative maintenance program should outline the frequency and detailed procedures for preventative maintenance tasks.	WSB property maintenance personnel have implemented processes whereby much of the regular preventative maintenance of buildings, equipment, and playgrounds at each of our locations is scheduled and tracked to better ensure compliance and completion.
The Western School Board should document the actual performance of its preventative maintenance tasks.	Same response as previous recommendation.

Auditor General's Recommendation	Status/Management Response
The Western School Board should implement a work order system that optimizes its preventative maintenance program.	We have priced formal property maintenance software packages for operations of our size and have included costs for training as well as employee resources required for daily updating. We estimate the expenditure to implement such a program to be around $100,000. In light of our current level of underfunding, we do not anticipate being able to implement such a program without a minimum of a $350,000 increase to our operational budget.
The Department of Education and Early Childhood Development should reassess its current funding formula to ensure it is relevant to maintenance operational needs. If the Department determines that it cannot fund a comprehensive preventative maintenance program, risk mitigating measures should be developed.	In an effort to better understand the current conditions of our Island schools, the Department carried out a comprehensive school inspection program during the winter of 2011. The purpose of the inspections was to determine the current condition of the building envelopes and to identify where moisture could be entering the buildings. Following on the heels of the school inspections, a project manager was seconded from the Department of Transportation and Infrastructure Renewal to work with each school board to address the issues identified in the initial inspections. A number of projects were carried out during the summer of 2011 and more are planned for the 2012 building season. Government provided the Department with a capital budget of $1.5 million in 2012-13 to carry out the required repairs. The Department believes that with the significant infusion of capital funds the condition of the various schools will be improved and this will allow school boards to be better positioned to carry out the routine maintenance with the current budgets.

Auditor General's Recommendation	Status/Management Response
To meet the expectations of Risk Management and Insurance, the Western School Board should ensure that its playground inspection process meets the requirements of the CSA standard for *Children's Playspaces and Equipment*.	The Western School Board has implemented a playground inspection process that meets with CSA standards for *Children's Playspaces and Equipment.* We have invested in training to have an accredited and certified playground inspector on staff. We have issued checklists and inspection procedures to all schools as well as regular inspection schedules and reporting requirements to ensure our playgrounds continue to function as safely as possible.
The Western School Board should implement a work order system to log, schedule, track, and document all corrective maintenance tasks identified from school personnel, building inspections, and internal and external inspections.	We have priced formal property maintenance software packages for operations of our size and have included costs for training as well as employee resources required for daily updating. We estimate the expenditure to implement such a program to be around $100,000. In light of our current level of underfunding, we do not anticipate being able to implement such a program without a minimum of a $350,000 increase to our operational budget.

INSPECTION OF BRIDGES

10.7 Following are the recommendations resulting from our audit of Inspection of Bridges in the 2011 Annual Report of the Auditor General. The status of implementation of the recommendations is provided based on information received from management of the Department of Transportation and Infrastructure Renewal.

Auditor General's Recommendation	Status/Management Response
The Department should take steps to ensure that all bridge structures are recorded in the database.	The Department is taking measures to ensure that all structures will be recorded in the database within the next fiscal year. The Department has done a reconnaissance of all structures identified as missing from the database. The information has been compiled and the database will be rectified when the inspections have been received and uploaded back into the system.
All high priority bridges should be identified in accordance with the best practices adopted by the Department.	The Department is constantly reviewing its inventory and determining what structures make the list of "high priority," depending on traffic volumes, importance of highway network, structural considerations, etc.
The Department should ensure that information recorded in the Bridge Management System for each bridge is accurate, complete, and updated for any additional assessment, rehabilitation, or demolition work.	The Department will strive to better control the management of the database which gets input into the Bridge Management System (BMS) and this will be reviewed with the inspection teams. The Department has a form letter that the consultants are to sign and forward with their database upon delivery to the Department. The Department also checks for accuracy and will create a checklist to determine what remedial measures are identified and what has been conducted or, if not, then an explanation of why the work was not carried out.

Auditor General's Recommendation	Status/Management Response
The Department should re-examine the inspection practices related to the rails to trails structures.	Completed. The Department notes that Tourism owns these structures; however, the Department inspects and maintains them. In order to limit liability issues associated with these structures, the Department has undertaken the more significant structures on the Rails to Trails network and included them in the bridge inspection program.
The Department should ensure that high priority bridges are inspected every two years in accordance with adopted best practices.	Completed. The Department recognized this and noted that the inspection program is still in its infancy stages. The Department does intend to proceed with providing biennial inspections on every high-priority structure.
The Department should take action to ensure the bridge inspections are conducted in accordance with Department requirements as outlined in the consultants' contracts.	The Department will implement a series of checks and balances to ensure that the required data is entered into the BMS by the consultants. When the databases have been received back from the inspection teams, we will review them for completeness.
The Department should implement review procedures to highlight inspection reports requiring follow-up.	The Department will take the necessary steps to check any bridge which requires a follow-up inspection and will provide documentation of the follow-up inspection into the BMS.

Auditor General's Recommendation	Status/Management Response
To support capital planning decisions, the Department should define the bridge condition information that is critical to capital planning and obtain this information from the Bridge Management System.	The Department is actively pursuing an upgrade to the BMS which includes a risk-based approach in determining capital planning, including a bridge criticality and urgency factor. It will take some time to run through a few cycles of inspection based on the newly introduced factor; however, we are confident that it will greatly assist our technical staff in determining the capital bridge program. We note that this does not replace good sound technical engineering or judgment; however, it is used as a very important tool in determining the program. This may take up to three years to fully develop.
Capital planning decisions for bridges should be supported with documented risk considerations.	Same response as previous recommendation.
To assist in capital planning, the Department should ensure upgrades to the Bridge Management System are implemented.	Same response as previous recommendation.
Contractual arrangements for bridge inspections should be open to a competitive process. In accordance with Treasury Board policy, where a competitive process is not followed Treasury Board approval should be obtained.	The Department has taken great strides in providing a bridge inspection program and training which is second to none. In order to maintain this high level of competency, it was decided that all local consultants be given the opportunity to participate. Those interested parties were trained and allowed to conduct bridge inspections for the Department.

Auditor General's Recommendation	Status/Management Response
	Tendering this program will lend itself to under-bidding, loss of knowledge base between individual consultants, and a high potential for less than meaningful data input into the BMS. The Department intends to pursue obtaining Treasury Board approval for the process chosen in the 2012-13 fiscal year prior to contracts being awarded.
The Department should ensure contracts are signed for bridge inspection work carried out by consultants.	In 2012-13, the Department will implement a checklist to ensure that all contracts are signed and that a signed copy is filed.
At the completion of each biennial inspection cycle, the Department should re-examine the cost of contracting out versus staffing to conduct bridge inspections.	Completed. The Department has recently conducted a cost analysis on this very issue, and we have determined that contracting consultants versus hiring additional staff to conduct the inspections is generally cost neutral.
In accordance with Treasury Board Signing Authority Policy, contracts for consultant services that exceed $100,000 should be authorized by Treasury Board.	The Department receives an allotted capital budget in the preceding fall of each fiscal year which is approved by Treasury Board. The Department is responsible for hiring consultants within this approved allotment. The intent is that the Department does not load Treasury Board up with every single contract for approval. However, as indicated previously, the Department will pursue an approval from Treasury Board for this program.

IMPLEMENTATION OF THE ELECTRONIC HEALTH RECORDS INITIATIVE

10.8 Following are the outstanding recommendations resulting from our audit of the Implementation of the Electronic Health Records (EHR) Initiative in the 2010 Annual Report of the Auditor General. The status of implementation of the recommendations is provided based on information received from management of Health PEI, who is responsible for this initiative.

Auditor General's Recommendation	Status/Management Response
The Department of Health should maintain an integrated delivery plan that aligns with a strategic plan for the completion of the EHR.	The Executive Director, Health Information Management, maintains the EHR strategic plan which details EHR progress and priorities vs. the long-term EHR roadmap. Health PEI has established an Information Management/Information Technology Leadership Committee which sets priorities relating to EHR implementation. These are then communicated to IT Shared Services and used to coordinate integrated delivery. It should be noted that EHRs and their supporting technology are constantly evolving to meet the ever-changing health context and environment. As such, it would be difficult to say that an EHR implementation is ever complete. A more relevant expression would be "an integrated delivery plan that aligns with a strategic plan for the on-going implementation and evolution of the EHR."
The Department of Health should publicly report information on the progress achieved in implementing the EHR initiative including a comparison of actual and expected performance.	A summary of EHR progress, benefits, expenses incurred to date, and priorities going forward has been prepared and posted at www.health pei.ca/ehr. A "Talking Health" article detailing EHR progress, benefits, costs and priorities will also be published in *The Guardian* in late February 2012.

SECURITY ASSESSMENT - DRUG INFORMATION SYSTEM

10.9 Following are the outstanding recommendations resulting from our audit of the Security Assessment - Drug Information System (DIS) in the 2010 Annual Report of the Auditor General. The status of implementation of the recommendations is provided based on information received from management of Health PEI, who coordinated with Information Technology Shared Services (ITSS) to provide this update.

Auditor General's Recommendation	Status/Management Response
Information Technology Shared Services (ITSS) should continue to work with the Information Technology Governance Council (ITGC) to gain approval for the Government Information Security Policy (GISP).	The work described in the previous update is still ongoing. ITSS is revising an implementation plan for GISP for presentation to the Standing Committee on Corporate Management (SCCM). This plan is prioritized based on risk. The implementation of the GISP will have implications to processes and budgets in all government departments and needs to be carefully planned. ITSS will continue to work with the SCCM to ratify GISP in a way that is effective and causes a minimum of disruption to its client departments.
Information Technology Shared Services should ensure the implementation plan for the GISP is prioritized based on risk.	The intended GISP implementation plan is prioritized based on risk.
The Department of Health in conjunction with ITSS should implement standard password controls for the DIS.	Standard password controls will be included with Release 3.8 scheduled for fall 2012.
The Department of Health should work with ITSS to establish a series of baselines for system security settings in the DIS based on needs and common recognized standards.	New system security settings will be available in the fall 2012. ITSS continues to work with Health PEI on developing audit reports.

Auditor General's Recommendation	Status/Management Response
The Department of Health in conjunction with ITSS should approve and implement a formal set of policies and procedures governing DIS change management. Evidence should be retained for key control points throughout the process including: authorization, testing, approval, segregation of duties, and monitoring.	ITSS created and piloted a Change Advisory Board (CAB) for all IT systems, including DIS. Results of the pilot are outstanding although CAB continues to run weekly.
Given the sensitivity and privacy of the information that is available on the DIS, the use of a local user account by an external service provider should be logged and monitored and/or shadowed during active service provider sessions by the Department of Health with support from ITSS.	Passive audit reports are still currently being developed. An enterprise log monitoring tool is also being investigated.
The Department of Health should work with ITSS to establish a series of baselines for system security auditing of the DIS based on needs and on recognized standards. The auditing program should address the following: what is audited, how often logs are reviewed and what action should be taken on identified events.	Work continues in this mode. Inactive accounts are addressed every 3 months, and ITSS continues to support report development of audit reports where the business requires them.

STUDENT FINANCIAL ASSISTANCE

10.10 Following are the outstanding recommendations resulting from our audit of Student Financial Assistance in the 2010 Annual Report of the Auditor General. The status of implementation of the recommendations is provided based on information received from management of the Department of Innovation and Advanced Learning.

Auditor General's Recommendation	Status/Management Response
Student Financial Services should ensure financial resources available to students are verified.	Student Financial Services, in conjunction with Nova Scotia, has implemented a data feature within the Student Assistance Management System that uses the Canada Revenue Agency (CRA) data to fill the line requirements for the financial resources available to students. The students and parents, as applicable, sign a tax consent form, and the CRA data is then used for the assessment.
Student Financial Services should use the documentation on income obtained from CRA for the 2008-09 academic year and verify a sample of income reported on student loan applications.	Student Financial Services obtained the 2007 CRA data and will verify a sample of loan application files.

GOVERNMENT'S INVOLVEMENT IN LENDING TO THE SNOW CRAB FISHERY

10.11 Following is an outstanding recommendation resulting from our audit of Government's Involvement in Lending to the Snow Crab Fishery in the 2010 Annual Report of the Auditor General. The status of implementation of the recommendation is provided based on information received from management of Innovation PEI and Finance PEI.

Auditor General's Recommendation	Status/Management Response
Business Development Inc. (now Innovation PEI) should ensure that its lending policies are reviewed and approved.	In November 2011, it was announced by government that all lending services currently provided by the Province of PEI will be consolidated into a single Crown corporation, Finance PEI. Included as part of this mandate is an examination of the current lending practices employed by the various lending agencies with a comprehensive review, update, and streamlining of lending policy planned. In light of the foregoing, the CEO of Finance PEI will undertake to ensure that the lending policies inherited by Finance PEI from its predecessor agencies are revised where necessary and presented to the appropriate board(s) for approval.

PROVINCIAL NOMINEE PROGRAM - IMMIGRANT PARTNER CATEGORY

10.12 Following are the outstanding recommendations resulting from our audit of the Provincial Nominee Program - Immigrant Partner Category in the 2009 Annual Report of the Auditor General. The status of implementation of the recommendations is provided based on information received from management of Island Investment Development Inc. (IIDI).

Auditor General's Recommendation	Status/Management Response
IIDI should conduct an evaluation of the Immigrant Partner Category of the Provincial Nominee Program.	IIDI commissioned a review of the Provincial Nominee Program. We are awaiting the final report and expect to have it soon after February 2012.
IIDI should develop a strategy to follow up on businesses which received units under the Program. IIDI should provide information in its Annual Report on the results of these follow-up procedures.	IIDI's follow-up strategy on businesses which received investment under the Program is on-going. IIDI has issued follow-up letters to a random sample of 157 businesses that signed a Use of Proceeds Agreement. This letter requested specific information to assist IIDI in its assessment. At December 31, 2011, there had been 78 responses. It is anticipated that the remaining companies will respond to IIDI's request by the end of February 2012. IIDI has not conducted a formal review of these responses, and as such, no conclusion has been made as to whether funds were used in accordance with the terms of acceptance.

IN-PROVINCE PHYSICIAN PAYMENTS

10.13 Following are the outstanding recommendations resulting from our audit of In-Province Physician Payments as presented in the 2009 Annual Report of the Auditor General. The status of implementation of the recommendations is provided based on information received from management of Health PEI.

Auditor General's Recommendation	Status/Management Response
The renewal forms for a PEI Health Card should state the basic criteria a person must meet to be eligible for Medicare coverage on PEI and applicants should be required to confirm that they meet these criteria during renewal.	A new employee has been delegated responsibility for reviewing the current registration process and becoming familiar with the processes in other provinces. Significant progress is expected in early 2012. Residents are required to respond to the renewal letters issued to the household prior to a health card expiring, and the cards are not renewed until this occurs. The eligibility requirements are not clearly outlined in the current renewal letter, so the wording of the letters is being reviewed. Health PEI intends to revise the letters to include the requirements.

Auditor General's Recommendation	Status/Management Response
The Department of Health should use the information obtained from shadow billings to compare the costs and productivity of physician services under the various payment models.	Regular reports are provided to the Executive Director of Medical Affairs on shadow billing information. Health PEI intends to review the reporting capabilities of the Integrated Claims System to improve management reporting. The most recent Master Agreement with the Medical Society of Prince Edward Island includes provisions designed to encourage physicians to improve productivity in priority areas. The Executive Directors of Medical Affairs and Community Hospitals and Primary Care have been clearly mandated to work with physicians across the health system to ensure that expectations around physician workloads are clearly communicated and reasonable, and that these objectives are monitored fairly and regularly.
Department management should ensure that internal audit procedures provide adequate coverage of fee-for-service claims from all physicians.	Health PEI has created a Senior Internal Auditor position, which was filled in October, 2011. To date, the Senior Internal Auditor has developed a draft Internal Audit Charter outlining the role of internal audit for Health PEI, the authority, audit scope, audit planning, reporting, and periodic assessment procedures. A preliminary internal audit work plan was developed. Audits in the area of physician payments and leave utilization have been initiated.
Arrangements with the external service provider for the Integrated Claims System (ICS) should be formalized in a signed agreement and approved by Treasury Board as required by Treasury Board policy.	The Information Technology Shared Services branch of Provincial Treasury is in negotiations with the external service provider regarding this matter. This work is ongoing.

Auditor General's Recommendation	Status/Management Response
ITSS and the Department of Health should consult with the Risk Management and Insurance Section of the Department of the Provincial Treasury to determine the appropriate insurance coverage to be included in the Service Level Agreement for the Integrated Claims System.	ITSS has included an insurance provision in the draft Service Level Agreement based on input from a solicitor and Risk Management and Insurance Section.
The Information Technology Governance Council should formalize a Government Information Security Policy. ITSS in coordination with the Department of Health should apply the approved policy requirements to the Service Level Agreement for the Integrated Claims Systems.	The implementation of the GISP will have implications to processes and budgets in all government departments and needs to be carefully planned. ITSS is developing an implementation plan for the GISP and expects to have the draft completed in March 2012. The implementation plan will be prioritized based on risk and presented to the Standing Committee on Corporate Management (SCCM). ITSS will continue to work with the SCCM to ratify the GISP in a way that is effective and causes a minimum of disruption to its client departments.
ITSS in coordination with the Department of Health should monitor the activity of users in the Integrated Claims System.	Processes have been drafted to ensure there are regular reviews of user access to determine if it is appropriate and that there is regular monitoring of who is making modifications within ICS. ITSS is currently waiting for future product releases to implement.
ITSS in coordination with the Department of Health should take the necessary steps to improve the usefulness of the monitoring report.	Existing monitoring (security and system changes) reports have been reviewed to determine if the required information is present for tracking of user accounts and system modifications. It has been determined that these reports must be modified. Key elements to be included in the audit report have been identified. ITSS is currently waiting for future product releases to implement.

DEPARTMENT OF SOCIAL SERVICES AND SENIORS GRANTS TO NON-GOVERNMENT ORGANIZATIONS

10.14 Following is an outstanding recommendation resulting from our audit of Department of Social Services and Seniors Grants to Non-Government Organizations as presented in the 2009 Annual Report of the Auditor General. The status of implementation is based on information received from management of the Department of Community Services and Seniors.

Auditor General's Recommendation	Status/Management Response
The Department of Social Services and Seniors should develop a strategy outlining its objectives and criteria for providing funding to Non-Government Organizations (NGOs).	The Department created a draft policy document which outlines the Department's approach to NGO funding. The Department's senior management team expects to approve the document in the near future, and then it can be shared with organizations requesting funding.

MANAGEMENT AND USE OF DIAGNOSTIC IMAGING EQUIPMENT

10.15 Following is an outstanding recommendation resulting from our audit of the Management and Use of Diagnostic Imaging Equipment as presented in the 2008 Annual Report of the Auditor General. The status of implementation of the recommendation is provided based on information received from management of Health PEI.

Auditor General's Recommendation	Status/Management Response
Diagnostic Imaging Services should implement a quality assurance program that includes a peer review of a sample of each radiologist's analysis of diagnostic images.	The full complement of radiologists will be reached July 1, 2012. The Medical Director, Diagnostic Imaging, plans to implement peer review by the end of 2012. The province has a new technology upgrade in March and investigations are ongoing to determine if this will be the appropriate basis for peer review. A cross country jurisdictional review reveals that most provinces are in the process of implementing this review. The Canadian Association of Radiologists is working on developing national standards and guidelines.

PEI ENERGY CORPORATION

10.16 Following are the outstanding recommendations resulting from our examination of the PEI Energy Corporation as presented in the 2007 Annual Report of the Auditor General. The status of implementation of the recommendations is provided based on information received from management of the PEI Energy Corporation.

Auditor General's Recommendation	Status/Management Response
The Energy Corporation should develop a strategic plan that is linked to the renewable energy strategy and approved by the Board of Directors.	Since the signing of the PEI Energy Accord between the Government of PEI and Maritime Electric Company Limited, an Energy Commission has been selected to review electricity cost issues and to make relevant recommendations to government by the fall of 2012. One of the tasks of the Energy Commission is to make recommendations with respect to the appropriate role of the Energy Corporation in the supply, transmission, and distribution of electricity in the province. Until government has had an opportunity to evaluate the Commission's recommendations, it is felt that it would be premature to finalize a strategic plan. A plan will be developed once the government has evaluated the Commission's recommendations.
The Energy Corporation should prepare a business plan, linked to its strategic plan that outlines planned activities and required resources.	A business plan for the Energy Corporation will be prepared upon approval of a strategic plan.

PUBLIC ACCOUNTS COMMITTEE

11. PUBLIC ACCOUNTS COMMITTEE

ROLE AND MANDATE

11.1 The Standing Committee on Public Accounts (the Committee) is a committee of the Legislative Assembly. The Committee currently consists of seven members chaired by a member of the Official Opposition. It is charged with matters concerning the Public Accounts of the province and the Auditor General's Annual Report.

11.2 The Committee provides an important link in the accountability process. Through Committee proceedings, members of the Committee, as members of the Legislative Assembly, are given the opportunity to hold the administration accountable for the use of public funds and the stewardship of public resources. The Committee holds public meetings and requires the Auditor General and other witnesses to appear and answer questions on matters raised in the Auditor General's Annual Report as well as other issues the Committee deems appropriate.

PROCEEDINGS AND RESULTS

11.3 During the year, the Committee met to start the review of my 2011 Annual Report. Since the date of my last Annual Report up to March 1, 2012, I appeared before the Committee on three occasions and assisted in their deliberations by providing further information, explanation, and clarification on a number of issues.

11.4 In its April 19, 2011, report to the Legislative Assembly, the Committee endorsed all the recommendations and observations made in the 2010 Report of the Auditor General to the Legislative Assembly. The Committee also requested that the implementation of the recommendations be reviewed and their status be presented in future Auditor General's reports to the Legislative Assembly.

11.5 Through its deliberations, the Committee has an important role in contributing to improved accountability and effectiveness in government operations. I look forward to continuing to work with the Committee in fulfilling its mandate.

OFFICE OF THE AUDITOR GENERAL

12. OFFICE OF THE AUDITOR GENERAL

MISSION

12.1 The Office of the Auditor General is the legislative audit office for the Province of Prince Edward Island. The Office serves the Legislative Assembly and the citizens of PEI by conducting audits and examinations.

12.2 Our Annual Report and meetings with the Public Accounts Committee assist the Legislative Assembly in its oversight of government spending and operations.

RESPONSIBILITIES AND FUNCTIONS

12.3 The mandate of the Office is set out in the *Audit Act*. The Auditor General is required to report annually to the Legislative Assembly on the results of the audits and examinations conducted by the Office. The Office has the authority to conduct audits and examinations of provincial government departments, Crown agencies, Crown controlled corporations and Crown corporations.

12.4 Financial audits include examinations of financial statements and other financial reports on which we provide assurance that the financial information is presented fairly in accordance with Canadian generally accepted accounting principles or the applicable reporting framework.

12.5 The *Audit Act* provides authority for the Auditor General to conduct any special audit or examination considered necessary to determine whether any agency of government is achieving its purpose, is doing so economically and efficiently, and is complying with the applicable statutory provisions.

12.6 In addition, the Act allows

- special assignments or investigations to be conducted at the request of the Lieutenant Governor in Council;

- the Auditor General or his designated representative to exercise all the powers of a commissioner under the *Public Inquiries Act* in examining any person under oath with respect to any matter which the Auditor General is authorized to check, examine or audit; and
- the Auditor General to authorize any duly qualified person to conduct any audit or examination on behalf of the Auditor General.

12.7 The Auditor General reports annually to the Legislative Assembly and his report shall

- state whether in his opinion the Public Accounts of the Province are presented fairly in accordance with the disclosed basis of accounting on a consistent basis;
- call attention to anything resulting from his examination that he considers necessary to be brought to the attention of the Legislative Assembly, including any cases where essential records and documentation of electronic data processing have not been maintained or the system of internal control is inadequate to
  - safeguard and protect the public property of the province
  - ensure the accuracy and reliability of the accounting data
  - promote operational efficiency
  - ensure adherence to prescribed governmental policies and procedures on financial matters;
- call attention to any infractions of the *Financial Administration Act* that have come to his attention;
- include information on deficits of any agency of government, not covered by appropriations and any surpluses not paid into the operating fund;
- include a statement of the total amount of any claims, obligations, debts, or moneys that have been discharged, cancelled, and released under section 26 of the *Financial Administration Act*; and
- list in detail, appropriations made by special warrant and the purpose of such appropriations.

OPERATING PHILOSOPHY

Independence

12.8 The Auditor General is responsible to the Legislative Assembly, not government. The Office is positioned to offer impartial opinions and recommendations on government operations and management practices. The *Audit Act* establishes the legal framework for an independent audit office. The key components in building that independence include

- the existence of a Legislative Audit Committee which reviews the Office's budget;
- the authority to carry out audits and examinations which the Auditor General deems necessary;
- the right of access to records and information necessary to perform audit functions;
- the power to request and receive information or explanations required; and
- the requirement to report annually to the Legislative Assembly.

12.9 In addition, the independence of the Office is supported by our quality assurance policies and an Office code of conduct which includes, among other things, policy and guidance on ethics, impartiality, and potential conflict of interest situations.

Audit Planning

12.10 Each year, an audit work plan is developed based on statutory requirements and audit priorities established by the Office. The annual work plan includes a number of financial statement audits as well as special audits and examinations. Special audits and examinations of government departments and Crown agencies are carried out based on prioritization of a number of risk factors as well as a desire to cover all government organizations on a cyclical basis.

12.11 Various factors are considered in establishing priorities for special audits and examinations. These include the materiality of revenues and expenses, the complexity of operations or program delivery, the results of previous audits, and the timing of the last audit. Other factors considered in planning each audit include our audit mandate, the impact on the public, expected resources required to complete the audit, the quality of the financial and management controls in place for the entity, and possible matters of significance that may arise from the audit.

Professional Standards

12.12 Generally accepted accounting principles for government are established through the recommendations of the Public Sector Accounting Board (PSAB) of the Canadian Institute of Chartered Accountants (CICA). These recommendations are directed at the public sector and deal with numerous accounting issues. We rely on these principles in conducting our audits as well as other guidance provided by the CICA and other authoritative sources.

12.13 Our financial audits are conducted in accordance with Canadian Auditing Standards (CAS) for assurance engagements as promulgated by the CICA. The CAS require that the auditor complies with ethical requirements and plans and performs the audit to obtain reasonable assurance that the financial statements are free from material misstatement and allows the auditor to express an opinion on the financial statements. Our special audits and examinations, are conducted in accordance with Other Canadian Standards for the public sector as outlined in the CICA Handbook. The standards provide guidance in the following areas: compliance with ethical requirements, knowledge of the entity being audited, planning the audit and reporting.

12.14 For financial statement audits, the Office is subject to a periodic practice inspection which is carried out by the Institute of Chartered Accountants of Prince Edward Island. This process is designed to protect the public interest by ensuring the Office meets the standards required of the profession.

12.15 The Canadian Council of Legislative Auditors (CCOLA) provides a peer review process for financial statement and special audits and examinations. This peer review process provides assurance that the Office is conducting audits in compliance with generally accepted auditing standards of the Canadian Institute of Chartered Accountants.

PERSONNEL, ADMINISTRATION, AND AFFILIATIONS

Organization

12.16 The Office staff complement consists of two audit directors, thirteen auditors, and two administrative staff. Two auditor positions remain vacant and are not funded. With our limited staff, we strive to provide reasonable audit coverage on a cyclical basis.

12.17 Under the *Audit Act*, the Legislative Audit Committee, a standing Committee of the Legislative Assembly, is responsible for the administration of the Office of the Auditor General. The Committee consists of the Speaker of the Legislative Assembly, who is the Chairperson, the Leader of the Opposition, and the Minister of Finance, Energy and Municipal Affairs. On an annual basis, the Auditor General is to submit budget estimates to the Committee for its review.

12.18 For the year ended March 31, 2012, the approved budgeted expenditures for the Office amounted to $1,707,100 and are summarized in **Exhibit 12.1**.

EXHIBIT 12.1
OFFICE OF THE AUDITOR GENERAL
OFFICE BUDGET
YEAR ENDED MARCH 31, 2012

Account	Budget
Administration	$ 32,800
Equipment	7,200
Materials, supplies and services	9,000
Professional and contract services	41,000
Salaries	1,574,700
Travel and Training	32,400
Contributions - CCAF	10,000
Total	**$1,707,100**

Professional Affiliations

12.19 As an Office, we strive to keep current in all aspects of legislative and other audit practices as well as new developments within the profession. The Office maintains a close association with a number of professional organizations to share experience and methodology with a view to contributing to the ongoing development of legislative audit practices. Some of the key affiliations include the following:

- **The Canadian Council of Legislative Auditors (CCOLA)** - The meetings of the Council bring together legislative auditors of the federal government, the provinces, and the territories. These meetings provide an opportunity for information exchange, discussion, development, and enhancement of legislative audit practices. Members of the Office serve on various CCOLA committees.

- **The Public Sector Accounting Board** - The Office provides input and cooperates with the Board in its efforts to improve and harmonize public sector accounting practices across Canada. The Board conducts research and issues recommendations on public sector accounting issues.

- **The Canadian Institute of Chartered Accountants and the Institute of Chartered Accountants of Prince Edward Island** - The Office maintains an important professional relationship with these organizations and provides input and receives information on developments in the profession.

- **The CCAF** - The Office has been a member and supporter of the CCAF since its inception in 1980. CCAF is a Canadian research and education foundation dedicated to building knowledge for meaningful accountability and effective governance, management, and audit.

OBJECTIVES AND ACCOMPLISHMENTS

12.20 In accordance with its mandate, the Office has established two broad goals as follows:

- ***to promote improved accountability for, and management of, public funds; and***
- ***to continuously update our knowledge and skills within our field of practice and to work to the highest standard of our profession.***

In support of these goals, the Office has developed a number of objectives. The following paragraphs provide information on each of these objectives and the accomplishments during the year.

(i) As required pursuant to the *Audit Act*, to prepare an Annual Report for the Legislative Assembly on the results of the audits that have been carried out.

12.21 The 2011 Annual Report of the Auditor General was tabled in the Legislative Assembly on April 5, 2011. The Report was referred to the Public Accounts Committee, and the Auditor General appeared before the Committee to discuss the Annual Report and provide additional information and explanations.

(ii) To express audit opinions on the financial statements of the province and other Crown corporations and agencies subject to audit by our office.

12.22 An unqualified audit opinion was provided on the Public Accounts for the year ended March 31, 2011. The audit report was dated August 25, 2011, which met the reporting requirements of the *Financial Administrative Act* for a fixed date election year. In addition to the Public Accounts, we conduct a number of financial statement audits of Crown corporations, pension and trust funds, and other agencies. This process provides assurance to taxpayers, through the Legislative Assembly, on the fairness of financial information reported by government.

(iii) To perform selected special audits and examinations to determine whether departments and agencies are being managed with due regard for economy and efficiency and are complying with applicable statutory provisions.

12.23 The extent of special audit and examination work that we can undertake is determined by the resources available after the financial audit work has been assigned.

12.24 Our special audits and examinations provide information and assurance on the management of public resources in a number of areas. We provide advice and make recommendations to improve management controls and practices where issues are identified.

(iv) To provide updated information on implementation of the recommendations arising from our audits.

12.25 We provide updated information in our Annual Report on outstanding recommendations. Annually, we request an update from organizations on the action taken or planned to address outstanding recommendations. Although we do not audit the responses, they are at a minimum reviewed for reasonableness.

(v) To maintain technical competence in an evolving accounting and auditing environment.

(vi) To remain aware of and provide input to the development of public sector accounting standards.

(vii) To build leadership within the Office by providing professional development and training opportunities for staff.

12.26 Our Office maintains an affiliation with the Canadian Institute of Chartered Accountants, which helps us to keep up to date on emerging accounting and auditing issues. Standards are promulgated by the Public Sector Accounting Board and the Auditing and Assurance Standards Board. We regularly participate in this process by providing comments during the discussion stages of the development of public sector accounting standards. In addition, we maintain professional affiliations with the Canadian Council of Legislative Auditors and the CCAF. This participation allows us to share knowledge and experience as well as receive information on newly developed methodology and emerging issues.

12.27 All audit staff within the Office have professional accounting designations. We strive to provide training and professional development opportunities to staff. Individual staff members attend various professional courses, conferences, seminars, and meetings.

12.28 For 2006 and subsequent years, the Institute of Chartered Accountants of Prince Edward Island requires members to take a minimum of 20 hours of professional development per year and not less than 120 hours in a three year period.

SCHEDULES

SCHEDULE A
PAGE 1 OF 2

OPERATING APPROPRIATIONS

	APPROPRIATION ACT 2010	GOVERNMENT REORGANIZATION	SPECIAL WARRANTS	TRANSFERS	SEQUESTRATIONS	TOTAL APPROPRIATIONS	EXPENDITURES 2011	UNDER (OVER) EXPENDITURES 2011
CURRENT								
AGRICULTURE	$ 30,589,200	$ -	$ 1,000,000	$ 109,900	$ -	$ 31,699,100	$ 31,638,678	$ 60,422
AUDITOR GENERAL	1,682,100	-	-	18,800	-	1,700,900	1,623,611	77,289
COMMUNITY SERVICES, SENIORS AND LABOUR	88,906,400	-	5,130,800	282,000	-	94,319,200	94,319,155	45
INTERMINISTERIAL WOMEN'S SECRETARIAT	435,600	-	3,900	1,000	-	440,500	440,414	86
EDUCATION AND EARLY CHILDHOOD DEVELOPMENT	220,505,200	-	-	49,700	-	220,554,900	218,355,928	2,198,972
ISLAND REGULATORY AND APPEALS COMMISSION	1,308,400	-	-	17,900	-	1,326,300	1,308,400	17,900
ENVIRONMENT, ENERGY AND FORESTRY	22,329,200	-	-	149,300	-	22,478,500	22,273,422	205,078
PEI ENERGY CORPORATION	572,400	-	-	3,000	-	575,400	575,357	43
EXECUTIVE COUNCIL	3,944,600	-	-	7,000	-	3,951,600	3,750,427	201,173
FINANCE AND MUNICIPAL AFFAIRS	65,658,100	-	-	239,700	-	65,897,800	61,891,580	4,006,220
COUNCIL OF ATLANTIC PREMIERS	192,200	-	-	-	-	192,200	191,872	328
GENERAL GOVERNMENT	11,227,800	-	-	(2,536,600)	(1,581,000)	7,110,200	3,543,053	3,567,147
EMPLOYEE BENEFITS	39,496,400	-	-	-	-	39,496,400	36,249,761	3,246,639
FISHERIES, AQUACULTURE AND RURAL DEVELOPMENT	13,357,200	-	1,400,000	61,200	-	14,818,400	12,983,696	1,834,704
EMPLOYMENT DEVELOPMENT AGENCY	5,430,700	-	-	2,700	-	5,433,400	5,132,909	300,491
HEALTH AND WELLNESS	13,810,100	-	-	20,300	-	13,830,400	13,171,557	658,843
HEALTH PEI	494,781,800	-	6,282,600	-	-	501,064,400	501,064,381	19
INNOVATION AND ADVANCED LEARNING	127,501,700	-	3,353,200	72,500	-	130,927,400	130,588,444	338,956
INNOVATION PEI	27,402,500	-	-	89,600	-	27,492,100	27,471,700	20,400
PEI LENDING AGENCY	782,400	-	-	12,100	-	794,500	782,400	12,100
JUSTICE AND PUBLIC SAFETY	41,745,900	-	408,000	352,500	-	42,506,400	42,417,372	89,028
LEGISLATIVE ASSEMBLY	4,903,800	-	-	16,500	-	4,920,300	4,724,327	195,973
PEI PUBLIC SERVICE COMMISSION	5,577,000	-	-	45,900	-	5,622,900	5,534,597	88,303
TOURISM AND CULTURE	7,952,400	-	1,200	55,500	-	8,009,100	8,009,063	37
TOURISM PEI	16,595,200	-	1,219,500	128,200	(717,200)	17,225,700	17,223,792	1,908
TRANSPORTATION AND INFRASTRUCTURE RENEWAL	121,730,900	-	-	801,300	(1,400,000)	121,132,200	120,008,838	1,123,362
INTEREST CHARGES ON DEBT	109,959,700	-	-	-	-	109,959,700	105,774,037	4,185,663
TOTAL CURRENT	$ 1,478,378,900	$ -	$ 18,799,200	$ -	$ (3,698,200)	$ 1,493,479,900	$ 1,471,048,771	$ 22,431,129

Note: Appropriations and expenditures are presented in accordance with the classification in the Appropriations Acts 2010. This differs from the format used in the Operating Fund financial statements in that amortization of tangible capital assets is recorded as an expense and capital assets are capitalized in the Operating Fund financial statements.

CAPITAL APPROPRIATIONS

	APPROPRIATION ACT 2010	GOVERNMENT REORGANIZATION	SPECIAL WARRANTS	TRANSFERS	SEQUESTRATIONS	TOTAL APPROPRIATIONS	EXPENDITURES 2011	UNDER (OVER) EXPENDITURES 2011
CAPITAL								
AGRICULTURE	$ 81,000	$ -	$ -	$ -	$ -	$ 81,000	$ 6,260	$ 74,740
COMMUNITIES, CULTURAL AFFAIRS AND LABOUR	4,500,000	(4,500,000)	-	-	-	-	-	-
COMMUNITY SERVICES, SENIORS AND LABOUR	10,646,000	-	-	-	-	10,646,000	2,253,534	8,392,466
EDUCATION AND EARLY CHILDHOOD DEVELOPMENT	19,088,800	-	-	-	-	19,088,800	17,657,169	1,431,631
ENVIRONMENT, ENERGY AND FORESTRY	160,000	-	44,300	-	-	204,300	202,989	1,311
FINANCE AND MUNICIPAL AFFAIRS	6,000,000	-	-	-	-	6,000,000	5,547,130	452,870
HEATH AND WELLNESS	50,691,600	(50,491,600)	-	-	-	200,000	158,057	41,943
HEALTH PEI	-	50,691,600	-	-	-	50,691,600	30,744,823	19,946,777
INNOVATION AND ADVANCED LEARNING	2,000,000	-	-	-	-	2,000,000	-	2,000,000
JUSTICE AND PUBLIC SAFETY	921,600	4,250,000	-	-	-	5,171,600	1,856,567	3,315,033
TOURISM AND CULTURE	-	50,000	-	-	-	50,000	47,165	2,835
TOURISM PEI	1,200,000	-	717,200	-	-	1,917,200	1,917,174	26
TRANSPORTATION AND INFRASTRUCTURE RENEWAL*	59,435,000	-	5,240,000	-	-	64,675,000	62,176,195	2,498,805
TOTAL CAPITAL	$ 154,724,000	$ -	$ 6,001,500	$ -	$ -	$ 160,725,500	$ 122,567,063	$ 38,158,437
GRAND TOTAL	$ 1,633,102,900	$ -	$ 24,800,700	$ -	$ (3,698,200)	$ 1,654,205,400	$ 1,593,615,834	$ 60,589,566

*Detailed capital budget was not available. Capitalized expenditures based on tangible capital asset policy.

Note: Appropriations and expenditures are presented in accordance with the classifications in the Appropriation Acts 2010. This differs from the format used in the Operating Fund financial statements in that amortization of tangible capital assets is recorded as an expense and capital assets are capitalized in the Operating Fund financial statements.

ORDER-IN-COUNCIL	SPECIAL WARRANTS FOR CURRENT EXPENDITURES 2011 FISCAL YEAR			
	AGRICULTURE			
EC2011-347	**FARM INCOME AND RISK MANAGEMENT**			
	Grants - Production Insurance Program			$ 1,000,000
	To fund additional costs for the production insurance program.			
	COMMUNITY SERVICES, SENIORS AND LABOUR			
EC2011-98	**GENERAL**			
	Salaries		$ 108,900	
	CHILD AND FAMILY			
	Salaries	301,200		
	Travel and Training	111,300	412,500	
	SOCIAL PROGRAMS			
	Grants - Social Assistance Cash and Materials	1,616,000		
	Grants - Disability Support Program	1,018,800	2,634,800	
	HOUSING PROGRAMS			
	Administration	164,200		
	Materials, Supplies, and Services	103,700	267,900	3,424,100
	To fund additional program expenditures.			
EC2011-409	**CHILD AND FAMILY**			
	Salaries	172,900		
	Travel and Training	26,000		
	Grants - Social Assistance Maintenance of Children	50,000	248,900	
	SOCIAL PROGRAMS			
	Professional and Contract Services	100,000		
	Salaries	143,200		
	Grants - Community	107,600		
	Grants - Income Support Program	239,000		
	Grants - Disability Support Program	123,000	712,800	

ORDER-IN-COUNCIL

SPECIAL WARRANTS FOR CURRENT EXPENDITURES 2011 FISCAL YEAR (continued...)

HOUSING PROGRAMS

Materials, Supplies, and Services	101,000		
Grants - Miscellaneous	644,000	745,000	1,706,700

To fund additional costs for social programs, child and family services, and housing expenditures. Partially offset by federal revenues of $185,700.

Total	$ 5,130,800

INTERMINISTERIAL WOMEN'S SECRETARIAT

EC2011-410 **INTERMINISTERIAL WOMEN'S SECRETARIAT**

Grants - Women's Secretariat	$ 3,900

To fund additional expenditures.

FISHERIES, AQUACULTURE AND RURAL DEVELOPMENT

EC2011-5 **COMMUNITY DEVELOPMENT**

Grants - Infrastructure Program	$ 1,400,000

To fund grants for projects approved under the Island Community Fund. Fully offset by sequestration of funds from Transportation and Infrastructure Renewal.

HEALTH PEI

EC2011-303 **GENERAL**

Professional and Contract Services	$ 4,300,600

AMBULANCE AND OUT-OF-PROVINCE LIAISON

Grants - Air Ambulance Program	627,700

QUEEN ELIZABETH HOSPITAL

Materials, Supplies, and Services	933,000

ORDER-IN-COUNCIL	SPECIAL WARRANTS FOR CURRENT EXPENDITURES 2011 FISCAL YEAR (continued...)		
	PROVINCIAL HOMES AND MANORS		
	Salaries	421,200	6,282,500
	To fund additional costs for medical programs, ambulance services, acute care and provincial homes and manors. Partially offset by sequestration of funds from General Government of $1,581,000.		
EC2012-99	**PROVINCIAL ACUTE CARE**		
	Miscellaneous - QEH Blood Products		100
	Total		$ 6,282,600
	INNOVATION AND ADVANCED LEARNING		
EC2011-135	**SKILLS PEI**		
	Labour Market Agreement		$ 2,474,600
	POST SECONDARY GRANTS		
	Grants - Holland College Capital Assistance		878,600
	Total		$ 3,353,200
	To fund debt service grants and program costs for Skills PEI. Partially offset by federal revenue of $1,214,200 under the Labour Market Development Agreement.		
	JUSTICE AND PUBLIC SAFETY		
EC2011-248	**EMERGENCY MEASURES ORGANIZATION**		
	Professional and Contract Services		$ 135,600
	To fund costs related to the Search and Rescue New initiatives Fund. Fully offset by federal revenue under the National Search and Rescue New Initiatives Fund.		
EC2011-404	**PROVINCIAL POLICING SERVICES - RCMP**		
	Professional and Contract Services		272,400
	To fund additional costs for policing services provided under contract with the RCMP.		
	Total		$ 408,000

ORDER-IN-COUNCIL	**SPECIAL WARRANTS FOR CURRENT EXPENDITURES 2011 FISCAL YEAR (continued...)**		
	TOURISM AND CULTURE		
EC2012-100	**PROVINCIAL LIBRARIES**		
	Books, Periodicals and Subscriptions.		$ 1,200
	TOURISM PEI		
EC2011-99	**PARKS OPERATIONS**		
	Salaries		$ 39,700
	FULFILLMENT		
	Administration		171,900
	MARKETING		
	Professional and Contract Services		60,400
	PUBLICATIONS		
	Materials, Supplies, and Services		52,700
	BUSINESS DEVELOPMENT		
	Professional and Contract Services		57,600
	INDUSTRY INVESTMENT		
	Professional and Contract Services	75,000	
	Grants - Tourism Product Development	145,000	220,000
	STRATEGY AND EVALUATION		
	Professional and Contract Services		109,000
	PARKS MANAGEMENT		
	Grants - Miscellaneous		508,200
	Total		$ 1,219,500

To fund additional costs for grants, professional fees, tourism marketing, publications printing, and the Integrated Tourism Project.

TOTAL SPECIAL WARRANTS FOR CURRENT EXPENDITURES		**$18,799,200**

ORDER-IN-COUNCIL	SPECIAL WARRANTS FOR CAPITAL EXPENDITURES 2011 FISCAL YEAR		
	ENVIRONMENT, ENERGY AND FORESTRY		
EC2011-123	**CAPITAL IMPROVEMENTS**		
	Capital - Property Improvements		$ 44,300
	To fund capital costs for maintenance of impoundments. Fully offset by revenue from Ducks Unlimited Canada.		
	TOURISM PEI		
EC2011-270	**CAPITAL EQUIPMENT**		
	Capital - Machinery and Equipment		$ 717,200
	To fund the costs of capital equipment for provincially owned golf courses. Fully offset by a sequestration of funds from Tourism PEI's operating budget.		
	TRANSPORTATION AND INFRASTRUCTURE RENEWAL		
EC2011-34	**LAND**		
	Capital - Land		$ 2,000,000
	To fund the purchase of land for construction of the Charlottetown Convention Centre.		
EC2011-154	**STRATEGIC HIGHWAY IMPROVEMENT PROJECTS**		
	Capital - Professional Services	1,700,000	
	NEW BUILDING CONSTRUCTION		
	Capital - Professional Services	1,540,000	3,240,000
	To fund construction of the Tignish Paint and Body Shop and cost-shared highway infrastructure projects. Partially offset by federal revenues of $1,700,000 from the Infrastructure Stimulus Fund and the New Deals for Cities and Communities (Gas Tax) Agreement.		
	Total		$ 5,240,000
	TOTAL SPECIAL WARRANTS FOR CAPITAL EXPENDITURES		**$ 6,001,500**
	TOTAL SPECIAL WARRANTS ISSUED FOR THE 2011 FISCAL YEAR		**$24,800,700**